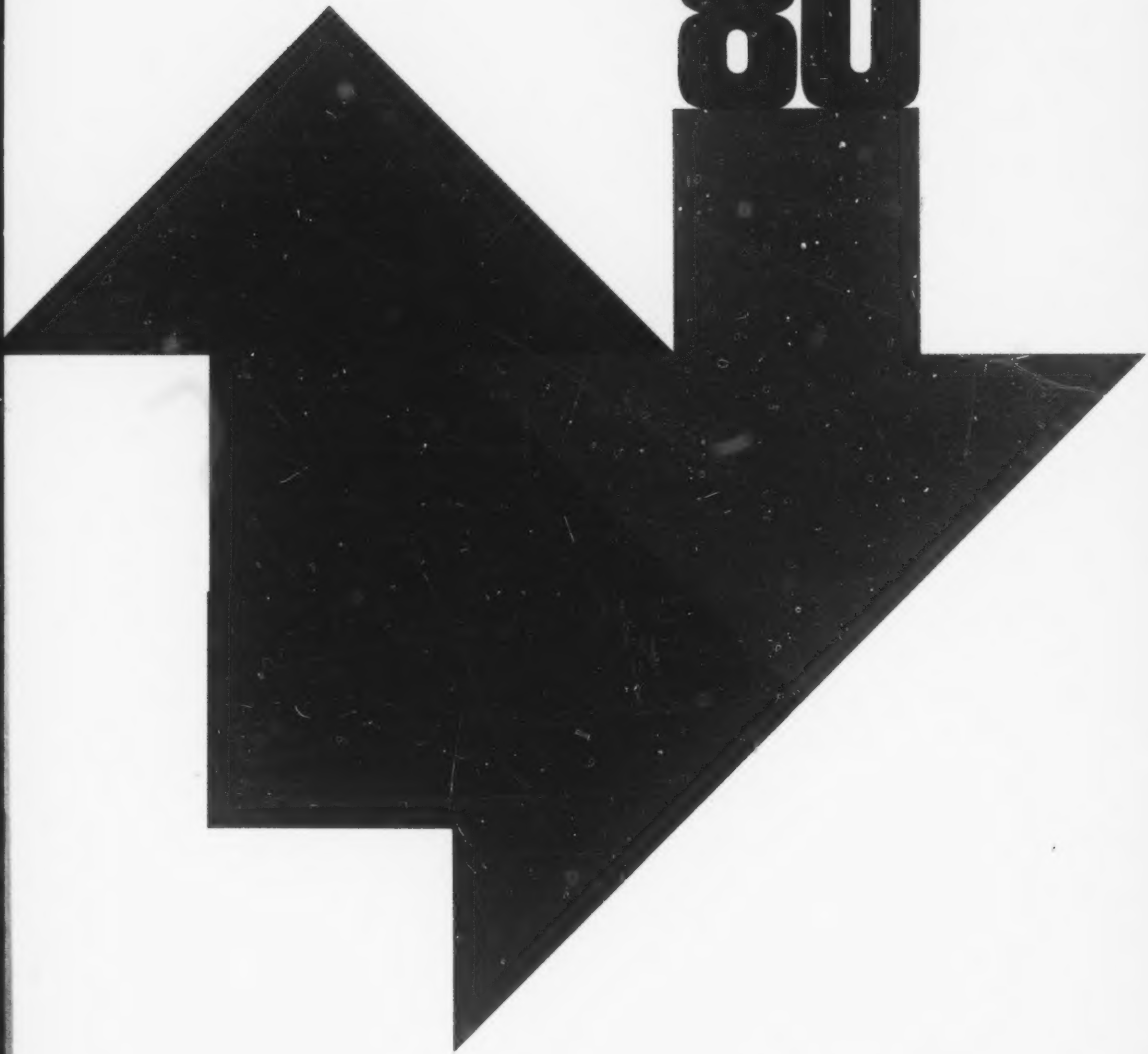
SAVINGS AND LOAN FACT BOOK '80



UNITED STATES LEAGUE OF SAVINGS ASSOCIATIONS
Headquarters: 111 E. Wacker Dr., Chicago, Ill. 60601
Washington Office: 1709 New York Ave., N.W.,
Suite 801, Washington, D.C. 20006

*Quotation from this publication is permitted provided that
credit is given to the publisher and to the source.
© United States League of Savings Associations 1980. Printed in the U.S.A.*

PREFACE

FACT BOOK '80

THIS IS THE 27th edition of the Savings and Loan Fact Book, an annual publication of the United States League of Savings Associations. In each year since 1954 the scope of the book has been expanded with the view of providing a comprehensive reference source on savings, homeownership, and residential construction and financing. No effort has been spared to ascertain that all data used were the most accurate available at the time of publication.

The Fact Book is distributed to U.S. League member institutions,* educators, school and public libraries, financial writers and editors, members of Congress and other government officials, mutual savings banks, life insurance companies, chambers of commerce and home builders. Copies may be obtained from the United States League of Savings Associations, 111 East Wacker Drive, Chicago, Illinois 60601.

The League is indebted to the many organizations and agencies that cooperated in providing data for the 1980 Fact Book.

Assistance in preparing the Fact Book is provided by many members of the Research Department. Completion of this book would not have been possible without the diligent and professional efforts of Diana Cheseldine, Research Associate, the Fact Book's editor; and Nancy Lapp, Senior Editor—Publications, who assisted in production.

DENNIS J. JACOBE
Director of Research

NOEL FAHEY
Research Associate

---

*Savings and loan associations, building and loan associations, co-operative banks (in New England), homestead associations (in Louisiana), building associations and savings associations.

United States League of Savings Associations

THE PRIMARY FUNCTION of the United States League is to serve the savings and loan business and the public interest by furthering thrift and homeownership. Organized 88 years ago, the League is regarded as one of the finest trade associations in the country. This reputation stems from a broadly based program having the following objectives: the support of thrift promotion; the encouragement of private investment in the purchase of homes; the development of safe, efficient operating methods for member institutions; and the improvement of statutes and regulations affecting the savings and loan business and the public interest.

The League functions primarily in support of member institutions but its services extend far beyond the savings and loan business, especially in the field of education. Currently this program includes seminars for educators at the local and national levels, as well as motion pictures, slide shows, texts and other special materials for grade school, high school and college students.

United States League membership currently is 4,350 savings associations. Located in every state, the District of Columbia, Puerto Rico, the Virgin Islands and Guam, these members represent approximately 99% of total savings and loan assets. The League is the recognized organization through which members—large and small, across the nation—exchange experience and knowledge, thus elevating the standards and services of individual institutions and the business as a whole.

Closely affiliated with the League are several organizations whose specialized services are important to member institutions and the entire savings and loan business:

The Institute of Financial Education is the educational and professional arm of the business. It sponsors 260 chapters and study clubs having a total membership of 84,000 savings association employees. It offers home study courses to employees in communities where there are no organized chapters, and current enrollments stand at approximately 17,000. Management education programs are conducted in residence at nine major universities.

Under an agreement with the United States government's Agency for International Development, The Institute makes its specialized educational services available to savings and loan associations around the world. Among these services are the publication of textbooks in Spanish, the establishment of chapters in Latin America and the development of training programs for executives from the Far East, the Middle East and Africa, as well as Latin America.

SAF Systems and Forms is a specialized source of internal operations information, forms, franchise funds transfer systems and other services designed exclusively for savings and loan associations and co-operative banks. Income from the operations of SAF goes to further the educational service of The Institute and to finance research in savings and loan operations.

The Advertising Division, Inc., is a self-sustaining affiliate which develops advertising and promotional materials for use by member associations, including newspaper ads; radio spots; counter literature; lobby displays; an annual 12-page calendar; *HOME LIFE*, a customer-contact publication; and premiums. Its wholly owned subsidiary, Advertising Southeast, Inc., provides full agency service.

The Financial Managers Society is a professional organization with a membership of 4,500, including both financial and operations executives and affiliate members. It, too, sponsors local chapters throughout the nation for the advancement of accounting and auditing techniques and savings institution personnel.

The Savings Institutions Marketing Society of America is a professional society for marketing executives in the thrift business. SIMSA offers a full schedule of educational programs and conferences and publishes a range of periodicals and special marketing reports for its 2,100 members.

CONTENTS

FACT BOOK '80

1

SAVINGS AND HOUSING IN THE ECONOMY

Income and Savings 7
Residential Construction 16
Residential Financing 26
Homeownership 37
The Real Estate Market 40

2

THE SAVINGS AND LOAN BUSINESS

Function and Structure 46
Savings Growth and Flows 55
Mortgage Lending 66
Balance Sheet 80
Savings and Loan Operations 85

3

FEDERAL GOVERNMENT AGENCIES

Federal Home Loan Bank System 94
Federal Savings and Loan Insurance Corporation 105
Other Government Agencies 110

4

REFERENCES AND INDEX

Major Federal Laws Affecting the Savings and Loan Business 118
Recent Major Regulatory Changes Affecting the Savings and Loan Business 121
References 123
Index 124

NORTHEAST:

New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Middle Atlantic: New Jersey, New York, Pennsylvania, Puerto Rico, Virgin Islands

NORTH CENTRAL:

East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin

West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

SOUTH:

South Atlantic: Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia

South Central: Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas

WEST:

Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming

Pacific: Alaska, California, Hawaii, Oregon, Washington, Guam

SAVINGS AND HOUSING IN THE ECONOMY

Income and Savings

AT THE END OF THE decade of the '70s, the U.S. was experiencing what has become the longest economic expansion since World War II. Yet the problems that had plagued the economy throughout the decade continued to grow even more pressing. These included virulent inflation, particularly in energy costs; record high interest rates and record low saving rates; a weak dollar; and declining productivity.

In 1979 the U.S. economy experienced sharply rising prices and slower economic growth. The year's price performance ranks as the worst since the end of World War II. Although growth slowed, the recession that was widely forecast failed to materialize; output continued to rise during the year.

Real gross national product, meaning GNP stated in terms of 1972 dollars to remove the distorting effect of inflation, rose by an average of only 1% over the four quarters of 1979, to a level of $1.4 trillion. In 1978 it expanded nearly 5%.

Households' continuing willingness to spend kept the economy from sliding into recession. Although real income growth slowed, households maintained their level of spending by a reduction in saving and an increase in borrowing.

Anticipating some slowing in sales, businesses were less willing to make long-term commitments. Business fixed investment rose only 8.9% during 1979, compared to 17.2% in 1978. Capital spending was concentrated in commercial and industrial buildings, while investment in equipment was little changed from the prior year. The pronounced decline in inventories further highlighted the cautious attitude of business.

Federal government purchases in real terms increased moderately in 1979, while state and local government spending remained at its 1978 level. The growth of foreign economies and the dramatic 1978 decline of the dollar made U.S. goods more attractive to foreign buyers; thus, net exports increased substantially last year.

Inflation

Severe inflation continued to be the most intractable economic problem in 1979, as the Consumer Price Index rose 13.3% over the course of the year.

Energy costs, which increased by 37.4% during the year, were the strongest contributing factor in this double-digit inflation rate. Homeownership costs also rose sharply, climbing by 19.8%. For those who already own a home, rising house prices represent an increase in the dollar value of a major asset. On the other hand, rising prices and financing costs create a substantial barrier for many would-be first-time home buyers.

Inflation in food prices moderated, falling from 11.8% in 1978 to 10.2% in 1979.

Employment and Wages

Employment growth remained strong in 1979, although at a rate well below that of recent years. Total civilian employment grew by 2.1 million persons in 1979, compared to a 3.2 million increase in 1978. The unemployment rate averaged 5.8% for

1979, little changed from the 6% rate of the previous year.

Aggregate measures of wage performance indicate that the administration's voluntary wage and price program seemed to slow the upward movement of wages and salaries during 1979. The growth rate of hourly compensation in private nonfarm businesses declined slightly, from 8.4% in 1978 to 8.3% in 1979.

Since wage increases trailed the rise in consumer prices during the year, workers' real income declined. Depending on the method used to adjust for inflation, the government estimates that real average hourly earnings fell by between 2.4% and 4.2% during 1979.

Monetary Policy and Interest Rates

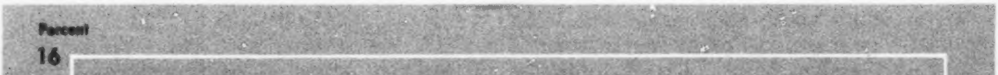
In 1979, monetary policy was directed principally at controlling inflation by limiting the growth of money and credit. This resulted in sharply increased interest rates by the end of the year. Yields on shorter maturity securities posted the largest increases. Three-month Treasury bill rates fluctuated in a 9%-to-9.6% range during the first eight months of 1979; then they shot upward, reaching a record 12.07% in December (Chart 1).

Long-term rates followed an almost identical pattern. From January through August they remained relatively stable but climbed substantially in the last four months, although the rise was more moderate than for shorter term securities.

This rapid rise in interest rates toward the end of the year resulted from more restrictive Federal Reserve policies aimed at curbing money supply growth. The growth of the monetary aggregates surged in the second quarter. In the third quarter the Federal Reserve raised the discount rate from 9.5% to 11%. Open-market operations were directed toward draining bank reserves until the federal funds rate reached a targeted level of 11.5%.

Despite these actions the money supply continued to grow rapidly. On October 6, the Federal Reserve raised the discount rate a full percentage point to 12% and placed an 8% marginal reserve requirement on certain bank liabilities. As a result, money and credit growth decreased markedly in the final quarter.

CHART 1 • Short-term and Long-term Interest Rates



Sources: Federal Reserve Board; Moody's Investors Service.

Sources of Data

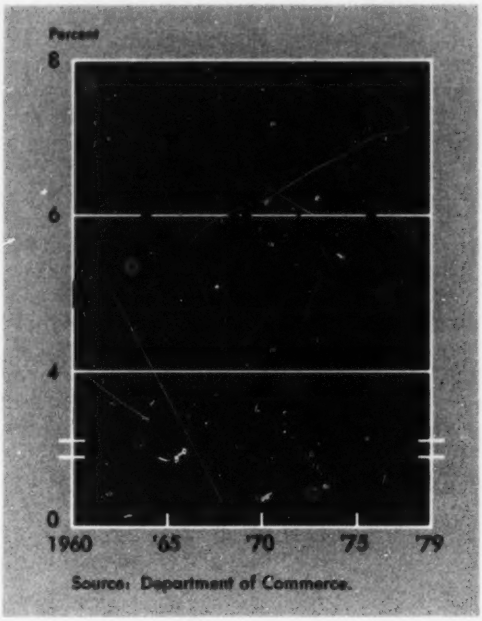
This capsule summary of the economy identifies the context within which financial institutions and credit markets operate. It sets the background for outlining major changes in the three classifications of savings that are closely watched by those interested in the flows of savings and mortgage markets.

These classifications are: (1) personal savings, from the National Income Accounts developed by the U.S. Department of Commerce; (2) household savings, from the Flow of Funds Accounts published by the Federal Reserve Board; and (3) over-the-counter flows to depository institutions, from supervisory agencies such as the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board.

Personal savings, in the Department of Commerce data, is calculated by subtracting estimated outlays for goods and services from the after-tax income of families and individuals. The remainder is called personal savings.

While this widely publicized figure gives a useful measure of the relation-

CHART 2 • Personal Savings as a Percentage of Disposable Personal Income



Source: Department of Commerce.

TABLE 1 • Distribution of Total Personal Income

(Dollar Amounts in Billions)

Year	Personal Income	Personal Taxes	Disposable Personal Income	Personal Outlays	Personal Savings: Amount	Personal Savings: As a % of Disposable Income
1950	$ 226.1	$ 20.6	$ 205.5	$ 194.7	$10.8	5.3%
1955	308.8	35.4	273.4	258.5	14.9	5.4
1960	399.7	50.4	349.4	332.3	17.1	4.9
1965	537.0	64.9	472.2	441.9	30.3	6.4
1966	584.9	74.5	510.4	477.4	33.0	6.5
1967	626.6	82.1	544.5	503.7	40.9	7.5
1968	685.2	97.1	588.1	550.1	38.1	6.5
1969	745.8	115.4	630.4	595.3	35.1	5.6
1970	801.3	115.3	685.9	635.4	50.6	7.4
1971	859.1	116.3	742.8	685.5	57.3	7.7
1972	942.5	141.2	801.3	751.9	49.4	6.2
1973	1,052.4	150.8	901.7	831.3	70.3	7.8
1974	1,154.9	170.3	984.6	913.0	71.7	7.3
1975	1,255.5	168.8	1,086.7	1,003.0	83.6	7.7
1976	1,381.6	197.1	1,184.5	1,115.9	68.6	5.8
1977	1,531.6	226.4	1,305.1	1,240.2	65.0	5.0
1978	1,717.4	259.0	1,458.4	1,386.4	72.0	4.9
1979*	1,923.7	300.0	1,623.7	1,550.5	73.2	4.5

*Preliminary.
Source: Department of Commerce.

ship between income and outlays, it does not accurately measure financial forms of saving. One reason for this is that expansion of credit, as well as income, can be used to acquire goods, services and financial assets. Furthermore, cash can be used to reduce debt rather than for personal outlays.

Household savings figures are one component of the Federal Reserve Board's Flow of Funds Accounts. This series presents a consistent account of dollar changes in the financial assets and liabilities of households, businesses, financial institutions and government units.

Like personal savings, household savings takes in a broad range of financial assets, including time and savings deposits at financial institutions, investments in life insurance and pension plans, and purchases of direct market instruments such as stocks and bonds. Although the definitions of personal and household savings include nearly the same categories—households, nonprofit institutions and some other minor groupings—the resulting savings figures may differ greatly.

Over-the-counter savings consists of savings accounts and time deposits at depository-type financial institutions. This classification essentially includes the funds of corporations, unincorporated businesses and partnerships, as well as the categories encompassed by personal savings and household savings.

Personal Income and Savings

Personal income totaled $1.9 trillion in 1979, with after-tax income amounting to $1.6 trillion (Table 1). This disposable income was 11.3% higher than the 1978 figure.

By the fourth quarter of 1979 the personal savings rate stood at 3.4%, the lowest rate since the third quarter of 1950.

TABLE 2 • Allocation of Household Funds

(Dollar Amounts in Billions)

Item	1976	1977	1978	1979*
Disposable Personal Income	$1,184.5	$1,305.1	$1,458.4	$1,623.7
Plus: Increase in Credit	116.0	173.8	200.6	208.6
Equals: Total Funds Available	$1,300.5	$1,478.9	$1,659.0	$1,832.3
Less: Spending on Nondurable Goods and Services	932.4	1,031.1	1,150.4	1,296.9
Less: Increase in Currency and Demand Deposits	14.9	22.7	18.3	7.6
Leaves: Amount Available for Investment in Tangible and Financial Assets	$ 353.2	$ 425.1	$ 490.3	$ 527.8
Invested in:				
Tangible Assets	$ 171.8	$ 220.1	$ 255.5	$ 307.3
Financial Assets	181.4	205.0	234.8	220.5
Financial Assets Placed in:				
Savings Accounts	$ 109.3	$ 109.2	$ 105.2	$ 86.0
Insurance and Pension Funds	52.6	65.3	77.8	82.9
Credit and Equity Instruments	19.5	30.5	51.8	51.6

Percentage Distribution of Household Investments

Item	1976	1977	1978	1979*
Total Investments	100.0%	100.0%	100.0%	100.0%
Tangible Assets	48.6	51.8	52.1	58.2
Financial Assets	51.4	48.2	47.9	41.8
Savings Accounts as a Percentage of:				
Total Investments	30.9	25.7	21.5	16.3
Financial Investments	60.3	53.3	44.8	39.0

*Preliminary.
Sources: Department of Commerce; Federal Reserve Board.

Over the whole year, personal savings amounted to 4.5% of disposable personal income (Chart 2).

Household Funds

To the average person, intermediaries such as savings associations, commercial banks, savings banks and credit unions are the most familiar depositories for household funds. However, when market yields climb, rates at financial institutions typically lag behind. Then families and individuals move much of their funds out of these institutions into such direct in-

TABLE 3 • Annual Change in Financial Assets of Households

(Dollar Amounts in Billions)

Year	Savings Associations	Mutual Savings Banks	Commercial Banks	Credit Unions	Life Insurance Reserves	Pension Fund Reserves	Credit and Equity Instruments	Total†
1950	$ 1.5	$ 0.7	$ 0.1	$0.2	$ 2.9	$ 3.9	$ 0.5	$ 9.8
1955	4.9	1.8	1.6	0.4	2.9	5.6	8.7	25.9
1960	7.6	1.4	2.7	0.5	3.2	8.3	6.2	29.9
1965	8.5	3.6	14.9	1.0	4.8	12.1	2.8	47.7
1966	3.6	2.6	11.9	1.0	4.7	14.5	16.5	54.8
1967	10.6	5.1	18.7	0.9	5.1	14.0	– 1.1	53.3
1968	7.5	4.2	18.1	1.3	4.6	15.6	8.9	60.2
1969	4.1	2.6	0.7	1.7	5.0	16.3	34.5	64.9
1970	11.0	4.4	27.0	1.2	5.5	18.4	– 1.2	66.3
1971	28.0	9.9	28.1	1.7	6.3	21.1	– 8.9	86.2
1972	32.7	10.2	29.0	2.5	6.9	22.6	6.0	109.9
1973	20.2	4.7	35.3	3.6	7.6	25.4	32.0	128.8
1974	16.1	3.1	34.1	2.6	6.7	29.6	36.6	131.2
1975	42.8	11.2	24.6	5.4	8.7	34.9	27.0	155.9
1976	50.6	13.0	40.2	5.5	8.4	44.2	19.5	181.4
1977	51.0	11.1	40.2	6.9	11.6	53.7	30.5	205.2
1978	44.9	8.7	44.1	7.5	12.0	65.8	51.8	241.7
1979*	39.5	3.2	42.2	1.1	12.0	70.9	51.6	254.9
				Percentage Distribution				
1950	15.3%	7.1%	1.0%	2.0%	29.6%	39.8%	5.1%	100.0%
1955	18.9	6.9	6.2	1.5	11.2	21.6	33.6	100.0
1960	25.4	4.7	9.0	1.7	10.7	27.8	20.7	100.0
1965	17.8	7.5	31.2	2.1	10.1	25.4	5.9	100.0
1966	6.6	4.7	21.7	1.8	8.6	26.5	30.1	100.0
1967	19.9	9.6	35.1	1.7	9.6	26.3	– 2.1	100.0
1968	12.5	7.0	30.1	2.2	7.6	25.9	14.8	100.0
1969	6.3	4.0	1.1	2.6	7.7	25.1	53.2	100.0
1970	16.6	6.6	40.7	1.8	8.3	27.8	– 1.8	100.0
1971	32.5	11.5	32.6	2.0	7.3	24.5	–10.3	100.0
1972	29.8	9.3	26.4	2.3	6.3	20.6	5.5	100.0
1973	15.7	3.6	27.4	2.8	5.9	19.7	24.8	100.0
1974	12.3	2.4	26.0	2.0	5.1	22.6	27.9	100.0
1975	27.5	7.2	15.8	3.5	5.6	22.4	17.3	100.0
1976	27.9	7.2	22.2	3.0	4.6	24.4	10.7	100.0
1977	24.9	5.4	19.6	3.4	5.7	26.2	14.9	100.0
1978	18.6	3.6	18.2	3.1	5.0	27.2	21.4	100.0
1979*	15.5	1.3	16.6	0.4	4.7	27.8	20.2	100.0

---

*Preliminary.

†Beginning in 1974, includes money market fund shares not classified elsewhere.

Sources: Federal Home Loan Bank Board; Federal Reserve Board.

struments as government and corporate securities. When interest rates on credit and equity instruments ease, savings deposits again offer the better yield, and funds flow to them.

In 1979 the financial assets of households increased by $254.9 billion, as compared to $241.7 billion in 1978 (Table 3). However, the traditional intermediaries received only 33.8% of this growth. A large increase in investments in U.S. government securities was offset by a drop in other market instruments such as corporate equities, leaving household direct investments in 1979 virtually unchanged from 1978.

The instrument that was spectacularly successful in attracting household dollars in 1979 was the money market mutual fund. The figures for this relative newcomer on the financial scene are included in the total column of Table 3 but are not broken out separately.

Money market funds invest their assets in short-term money market securities. Individuals can buy shares in the funds in relatively small amounts and, thus, secure interest rate advantages which typically have been reserved for the large investor. With short-term market rates at record levels for much of 1979, money market funds grew from $10.8 billion in assets to $45.2 billion, or 318.5%, during the year.

Market Share of Financial Institutions

In the seven-year period from 1954 through 1960, associations received more than half the increase in depository savings of households (Chart 4).

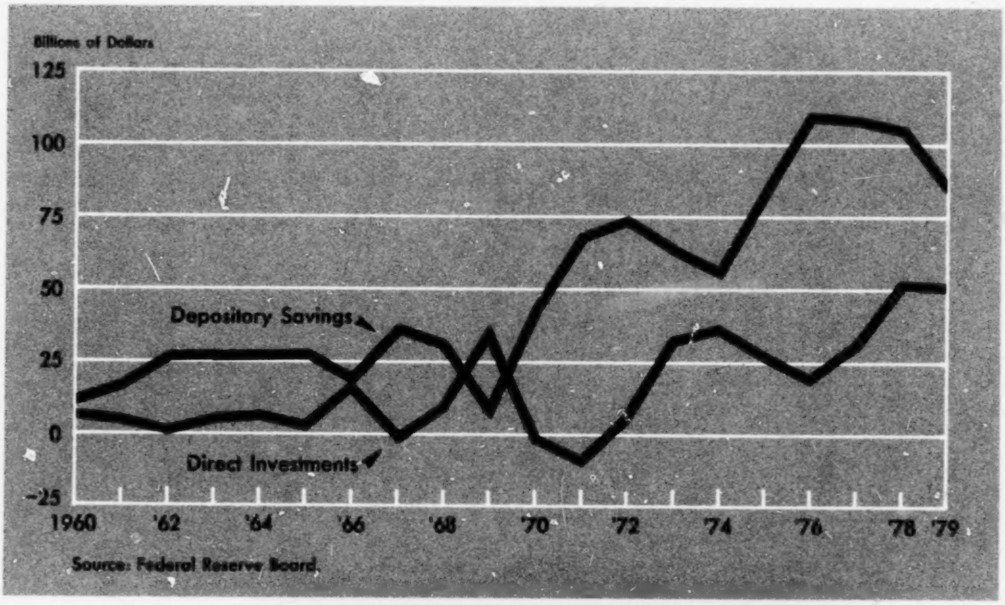
During the 1960s a complete reversal occurred in the share of the household savings gained by banks and associations. By 1965, banks' share had climbed above 50%, while associations' share plummeted to a low of 19% in 1966. Since then, the savings association share has varied between this low point and a peak of 51% in 1975. In 1979, associations captured 46% of the nation's savings gain, while 49% went to the commercial banks.

Over-the-counter Savings

At the end of 1979, commercial banks had $579.5 billion in time-savings deposits of individuals, partnerships and corporations (Table 4). Ranking second were savings associations, with $470.2 billion. Mutual savings banks were next with $145.9 billion, followed by credit unions with $56.2 billion.

Depository institutions had varied ex-

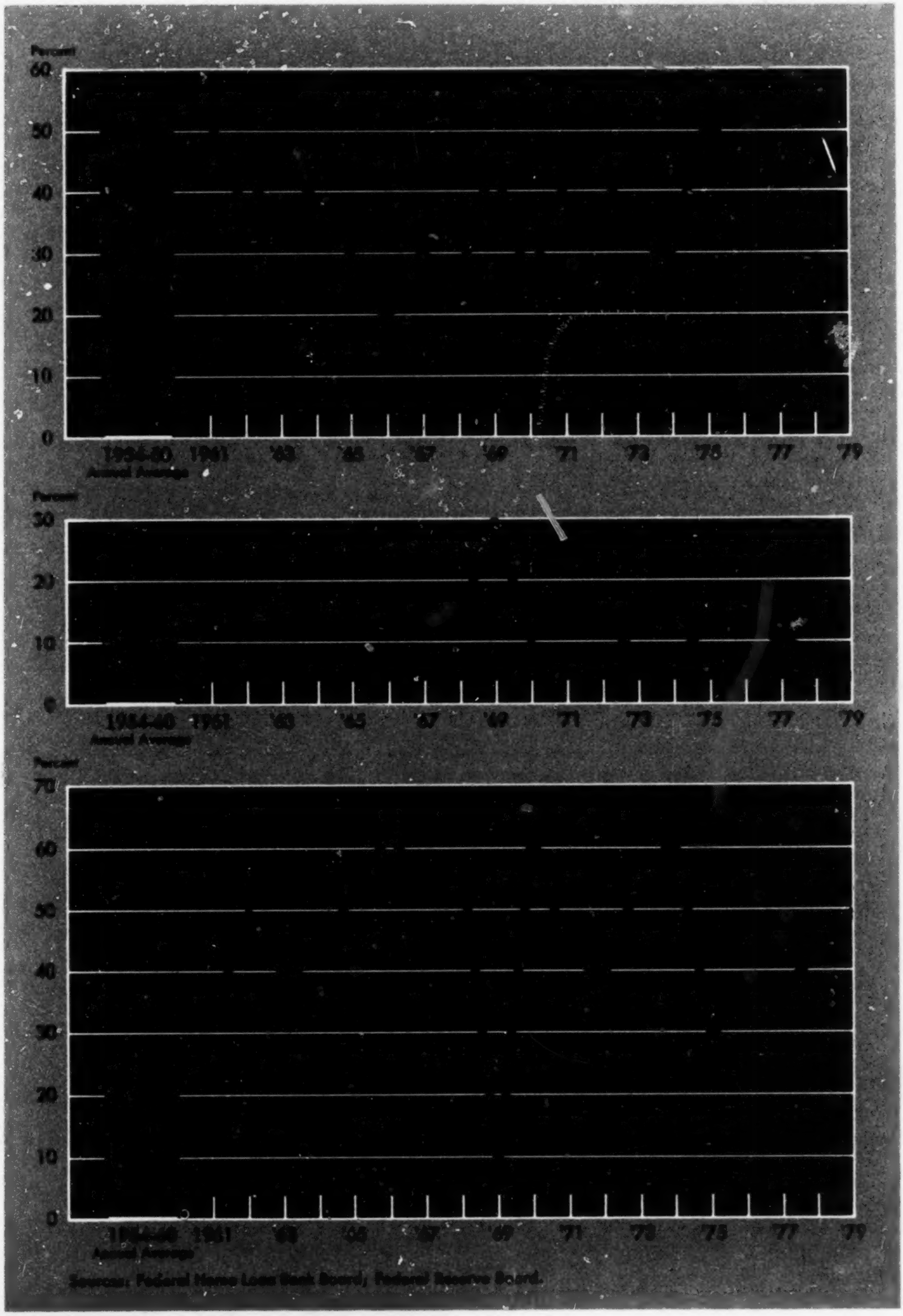
CHART 3 • Annual Changes in Depository Savings and Direct Investments of Households



Source: Federal Reserve Board.

CHART 4 • Gains in Household Savings at Major Financial Institutions

(Percentage Distribution)



Sources: Federal Home Loan Bank Board; Federal Reserve Board.

perience with savings growth in 1979. Savings associations led with a 9.1% increase, commercial banks gained 6.4% and credit unions gained 6%, while savings banks posted only a 2.2% increase.

Yields on Savings

The maximum rate that institutions may pay on most accounts is set by federal government agencies. Thrift institutions have an edge of ¼ of 1% on all except IRA and Keogh accounts, accounts issued to governmental units and, under certain circumstances, six-month money market certificates.

The six-month MMC came into being in June 1978. The maximum rate at commercial banks was equal to the average auction yield (on a discount basis) on six-month Treasury bills, while thrift institutions could offer ¼ of 1% more. Subsequently, regulations issued in March 1979 discontinued this differential whenever the rate on six-month Treasury bills exceeded 9%.

In July 1979 the MMC was joined by another variable-rate account, the four-year money market certificate. Its maximum rate at thrift institutions was set at 1% below the average four-year composite rate for U.S. Treasury securities, while maximum rates at banks were ¼ of 1% below those at thrift institutions.

These new accounts were introduced to enable financial institutions to pay rates that were more competitive with money market instruments. Most of the new deposits received by financial institutions in 1979 were placed in the variable-rate certificates, and many people also switched their deposits from existing lower yielding accounts into the new instruments.

Since the rates on these accounts are tied to money market yields, which were at record levels, there was an unprecedented increase in the average yield on savings at financial institutions in 1979 (Chart 5). The yield at associations jumped by 0.79%, from 6.52% to 7.31%, during the year (Table 5). The annual increase for the prior 10 years had averaged only 0.18%.

TABLE 4 • Over-the-counter Savings

(Billions of Dollars)

Year-end	Savings Associations[1]	Mutual Savings Banks[2]	Commercial Banks[3]	Credit Unions[4]	Postal Savings	Total
1950	$ 14.0	$ 20.0	$ 34.9	$ 0.9	$2.9	$ 72.7
1955	32.1	28.2	46.0	2.4	1.9	110.6
1960	62.1	36.3	67.1	5.0	0.8	171.3
1965	110.4	52.4	130.8	9.2	0.3	303.1
1966	114.0	55.0	142.9	10.0	0.1	322.0
1967	124.5	60.1	163.4	11.2	†	359.2
1968	131.6	64.5	181.3	12.3	...	389.7
1969	135.5	67.0	177.0	13.7	...	393.2
1970	146.4	71.6	205.8	15.4	...	439.2
1971	174.2	81.4	239.2	18.3	...	513.1
1972	206.8	91.6	273.5	21.7	...	593.6
1973	227.0	96.5	314.4	24.6	...	662.5
1974	243.0	98.7	360.5	27.5	...	729.7
1975	285.7	109.9	393.4	33.0	...	822.0
1976	335.9	122.9	435.1	39.2	...	933.1
1977	386.8	134.0	482.0	46.8	...	1,049.6
1978	431.0	142.7	544.6	53.0	...	1,171.3
1979*	470.2	145.9	579.5	56.2	...	1,251.8

*Preliminary.

†Less than $50 million.

1 All types of savings.

2 Regular and special savings accounts.

3 Time and savings deposits of individuals, partnerships and corporations.

4 Shares and members' deposits.

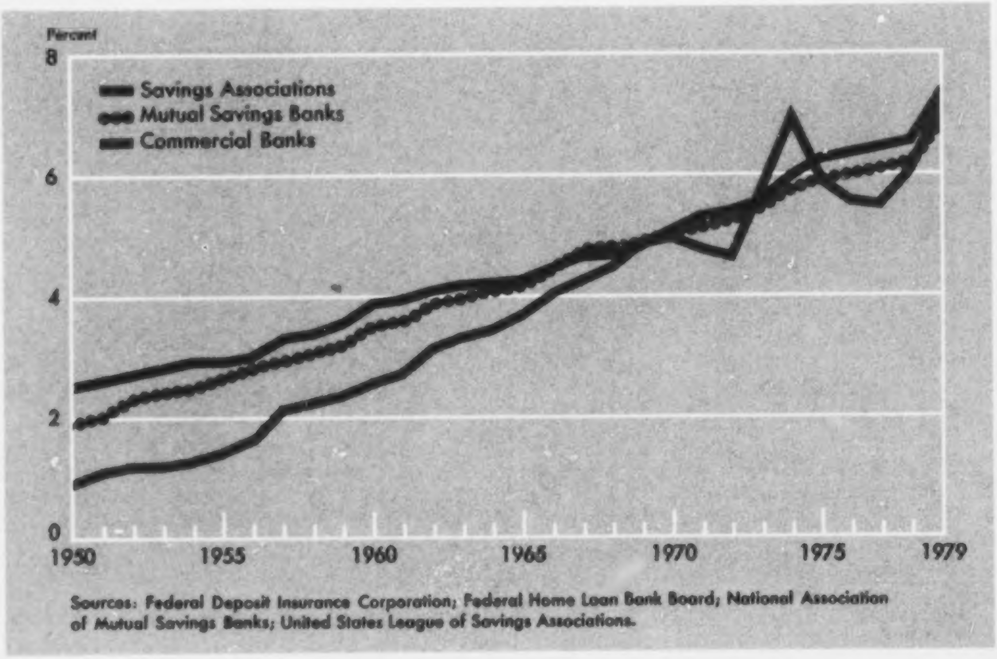
Sources: Federal Home Loan Bank Board; Federal Reserve Board.

TABLE 5 • Average Annual Yield on Selected Types of Investments

Year	Savings Deposits in Savings Associ-ations	Savings Deposits in Mutual Savings Banks	Time and Savings Deposits in Commercial Banks	United States Government Bonds	State and Local Bonds	Corporate Aaa Bonds
1950	2.52%	1.84%	0.94%	2.32%	1.99%	2.62%
1955	2.94	2.64	1.38	2.82	2.53	3.06
1960	3.86	3.47	2.56	4.12	3.73	4.41
1965	4.23	4.11	3.69	4.28	3.27	4.49
1966	4.45	4.45	4.04	4.92	3.82	5.13
1967	4.67	4.74	4.24	5.07	3.98	5.51
1968	4.68	4.76	4.48	5.65	4.51	6.18
1969	4.80	4.89	4.87	6.67	5.81	7.03
1970	5.06	5.01	4.95	7.35	6.51	8.04
1971	5.33	5.14	4.78	6.16	5.70	7.39
1972	5.39	5.23	4.66	6.21	5.27	7.21
1973	5.55	5.45	5.71	6.84	5.18	7.44
1974	5.98	5.76	6.93	7.56	6.09	8.57
1975	6.24	5.89	5.92	7.99	6.89	8.83
1976	6.32	5.98	5.53	7.61	6.49	8.43
1977	6.41	6.03	5.50	7.42	5.56	8.02
1978	6.52	6.14	6.02	8.41	5.90	8.73
1979*	7.31	6.85	7.28	9.44	6.39	9.63

*Preliminary.
Sources: Federal Deposit Insurance Corporation; Federal Home Loan Bank Board; Federal Reserve Board; Moody's Investors Service; National Association of Mutual Savings Banks; Standard & Poor's Corporation; United States League of Savings Associations.

CHART 5 • Average Annual Yield on Savings at Major Financial Institutions



Sources: Federal Deposit Insurance Corporation; Federal Home Loan Bank Board; National Association of Mutual Savings Banks; United States League of Savings Associations.

Residential Construction

RESIDENTIAL CONSTRUCTION peaked at a high level in 1978, then turned downward during 1979. Construction was started on 1.7 million privately owned units during 1979, 277,800 fewer units than in 1978 (Table 6). As in other recent years, the number of private housing starts was largest in the South and smallest in the Northeast (Table 7). Starts in the South accounted for 42.8% of the year's total, while those in the Northeast contributed only 10.2%.

Severe weather during the first two months of 1979 caused private housing starts to fall to an average seasonally adjusted rate of 1.5 million units. From March through October, new construction hovered in the range of 1.7 million to 1.9

TABLE 6 • Private and Public Housing Starts

	Private Units		Public Units		Total Units	
Year	Number of Units	Percentage of Total	Number of Units	Percentage of Total	Number of Units	Percentage of Total
Nonfarm						
1950	1,908,100	97.8%	43,800	2.2%	1,951,900	100.0%
1955	1,626,600	98.8	19,400	1.2	1,646,000	100.0
Total						
1960	1,252,100	96.6	43,900	3.4	1,296,000	100.0
1965	1,472,800	97.6	36,900	2.4	1,509,700	100.0
1966	1,164,900	97.4	30,900	2.6	1,195,800	100.0
1967	1,291,600	97.7	30,300	2.3	1,321,900	100.0
1968	1,507,600	97.6	37,800	2.4	1,545,400	100.0
1969	1,466,800	97.8	32,800	2.2	1,499,500	100.0
1970	1,433,600	97.6	35,400	2.4	1,469,000	100.0
1971	2,052,200	98.5	32,300	1.5	2,084,500	100.0
1972	2,356,600	99.1	21,900	0.9	2,378,500	100.0
1973	2,045,300	99.4	12,200	0.6	2,057,500	100.0
1974	1,337,700	98.9	14,800	1.1	1,352,500	100.0
1975	1,160,400	99.1	10,900	0.9	1,171,400	100.0
1976	1,537,500	99.3	10,100	0.7	1,547,600	100.0
1977	1,987,100	99.9	2,700	0.1	1,989,800	100.0
1978	2,020,300	99.9	3,000	0.1	2,023,300	100.0
1979*	1,742,500	99.8	4,000	0.2	1,746,600	100.0

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: Bureau of the Census.

million units. The year's peak occurred in June, when starts reached an annual rate of 1,923,000. Tightening construction loan and mortgage markets brought November's and December's housing starts to the lowest two-month level in three years (Table 8 and Chart 6).

The 1979 decline in residential construction was caused by escalating interest rates and inflationary forces rather than by any underlying weakness in housing demand. One constant source of the growth in housing demand has been the movement of "baby boom" children from the prime apartment rental ages into the traditional homeowning age range. The tendency to view homeownership as the best hedge against inflation has also contributed to the strong underlying demand for housing.

Government-assisted Housing

The steep downward trend in public housing starts seen since 1970 resulted in very low levels for the last three years (Table 6). With a total of only 9,700 units started since 1977, public housing rates were at historically low levels, representing only between 0.1% and 0.2% of all residential construction activity for those years.

Public housing, as the term is defined by the Bureau of the Census, includes only units in buildings contracted for by federal, state and local governments. This limited classification does not fully reflect

TABLE 7 • Private Housing Starts, by Regions

Region	Number of Units				Percentage Distribution			
	1976	1977	1978	1979*	1976	1977	1978	1979*
Northeast ..	169,200	201,600	200,300	177,200	11.0%	10.1%	9.9%	10.2%
North Central	400,100	464,600	451,200	348,300	26.0	23.4	22.3	20.0
South	568,500	783,100	823,700	746,600	37.0	39.4	40.8	42.8
West	399,600	537,900	545,200	470,500	26.0	27.1	27.0	27.0
Entire U.S. .	1,537,500	1,987,100	2,020,300	1,742,500	100.0%	100.0%	100.0%	100.0%

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: Bureau of the Census.

TABLE 8 • Private Housing Starts, by Months

Month	Number of Units			Seasonally Adjusted Annual Rate		
	1977	1978	1979*	1977	1978	1979*
January	81,300	88,600	88,200	1,519,000	1,744,000	1,679,000
February ..	112,500	101,300	84,500	1,856,000	1,659,000	1,381,000
March	173,600	172,100	152,900	2,064,000	2,011,000	1,786,000
April	182,200	197,500	161,000	1,883,000	2,176,000	1,745,000
May	201,300	211,000	189,100	1,985,000	2,037,000	1,835,000
June	197,600	216,000	191,800	1,907,000	2,093,000	1,923,000
July	189,800	192,200	164,200	2,062,000	2,104,000	1,788,000
August	194,000	190,900	170,300	2,023,000	2,004,000	1,793,000
September ..	177,700	180,500	163,700	1,982,000	2,024,000	1,921,000
October ...	193,100	192,100	169,000	2,078,000	2,054,000	1,764,000
November ..	154,800	158,600	118,700	2,041,000	2,107,000	1,522,000
December ..	129,200	119,500	89,000	2,151,000	2,074,000	1,527,000
Entire Year..	1,987,100	2,020,300	1,742,500			

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: Department of Commerce.

the extent of government participation in housing production.

For example, turn-key units, built by private developers for transfer to public housing authorities upon completion, are counted as private starts. In 1979, 12,001 turn-key dwelling units were started. When these numbers are added to public housing figures reported by the Bureau of the Census, the total for starts in 1979 is 16,001 units.

The most visible impact of government on residential construction appears in the data on subsidized units. The subsidies take a variety of forms, the most common being a payment on behalf of the owners or tenants, reducing their monthly interest costs or rent payments.

Subsidized housing starts peaked in 1971, when they reached 430,001, more than 20% of all residential units begun in that year (Table 10). In 1979, such starts totaled 257,661 units, 14.8% of all new units.

In early 1973 the administration suspended most federally subsidized housing programs, except for specific commitments already in the pipeline, because of failures and abuses. Most of these programs were reinstated with modifications during 1975.

A fuller discussion of the influence of government on housing production appears in the chapters of this book on residential financing, the FHLB System and other government agencies.

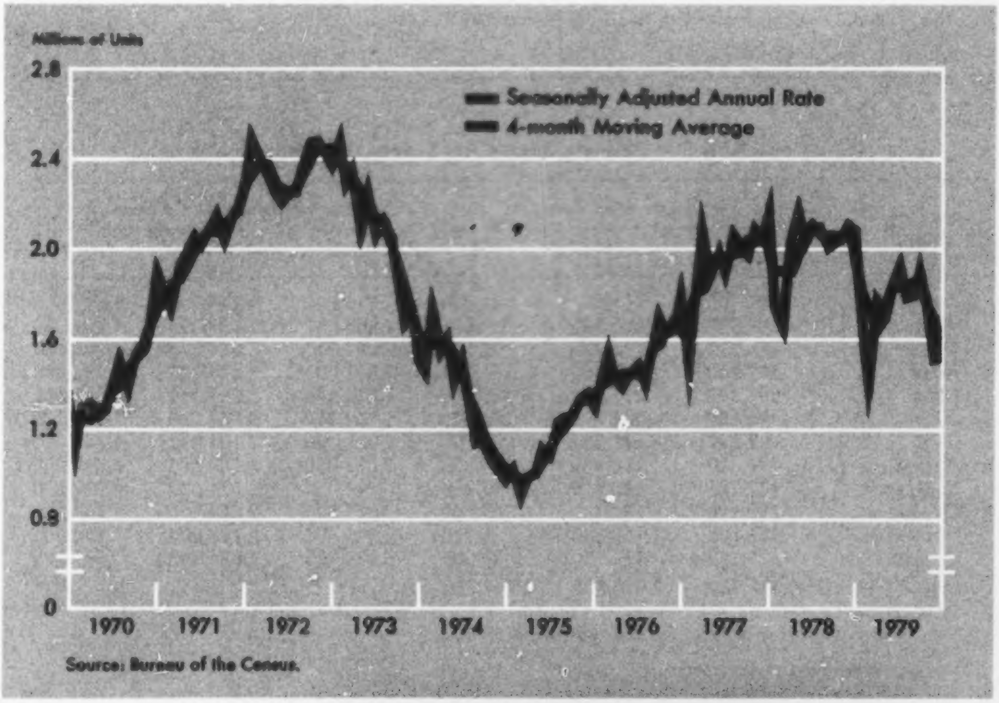
Construction Expenditures

Private construction is an important component of the gross national product. In 1974-75, weakness in private construction expenditures helped depress GNP, while extraordinary strength in this sector in 1976 and 1977 provided impetus to the overall economic expansion.

Last year's performance remained an important factor. Total private construction expenditures grew 11% to $178.1 billion (Table 11). This represented 7.3% of the total increase in the gross national product in 1979.

Residential building was the source of more than half of the expenditures for private construction. Private residential investment expenditures totaled $97.2 billion, a 4.1% increase over 1978.

CHART 6 • Private Housing Starts



Source: Bureau of the Census.

Residential Construction Costs and Consumer Prices

The 1974-75 housing depression had some moderating impact on the cost of residential construction, which traditionally has climbed more sharply than the general level of consumer prices.

From 1970 to 1973, residential construction costs rose 30%, as compared with a 14.4% increase in the Consumer Price Index. When housing starts contracted, however, construction cost increases slowed to the point where they were outpaced by gains in consumer prices. The Consumer Price Index soared 11% in 1974 and 9.1% in 1975, while residential construction costs rose 8.1% and 6.7%, respectively (Table 12).

With the increase in building activity and the slowing of the general inflation rate in 1976, the customary relationship between residential construction costs and the Consumer Price Index was restored. Changes in housing construction costs outpaced increases in the CPI from 1976 to 1978.

In 1979 the upward trend in construction costs tracked closely the increases of the previous two years but lagged behind

TABLE 9 • Private Housing Starts, by Number of Family Units

Year	One-family	Two-family	Three- and Four-family	Five or More	Total
1960	994,700	44,000	213,400		1,252,200
1965	963,700	50,800	35,800	422,500	1,472,800
1966	778,600	34,600	26,500	325,100	1,164,900
1967	843,900	41,400	30,200	376,100	1,291,600
1968	899,400	46,000	34,900	527,300	1,507,600
1969	810,600	43,000	42,000	571,200	1,466,800
1970	812,900	42,400	42,400	535,900	1,433,600
1971	1,151,000	55,100	65,200	780,900	2,052,200
1972	1,309,200	67,100	74,200	906,200	2,356,600
1973	1,132,000	54,200	64,100	795,000	2,045,300
1974	888,100	33,200	34,900	381,600	1,337,700
1975	892,200	34,500	29,500	204,300	1,160,400
1976	1,162,400	44,000	41,900	289,200	1,537,500
1977	1,450,900	60,700	61,000	414,400	1,987,100
1978	1,433,300	62,200	62,800	462,000	2,020,300
1979*	1,193,300	56,000	66,300	426,900	1,742,500
			Percentage Distribution		
1960	79.4%	3.5%	17.0%		100.0%
1965	65.4	3.4	2.4%	28.7%	100.0
1966	66.8	3.0	2.3	27.9	100.0
1967	65.3	3.2	2.3	29.1	100.0
1968	59.7	3.1	2.3	35.0	100.0
1969	55.3	2.9	2.9	38.9	100.0
1970	56.7	3.0	3.0	37.4	100.0
1971	56.1	2.7	3.2	38.1	100.0
1972	55.6	2.8	3.1	38.5	100.0
1973	55.3	2.6	3.1	38.9	100.0
1974	66.4	2.5	2.6	28.5	100.0
1975	76.9	3.0	2.5	17.6	100.0
1976	75.6	2.9	2.7	18.8	100.0
1977	73.0	3.1	3.1	20.9	100.0
1978	70.9	3.1	3.1	22.9	100.0
1979*	68.5	3.2	3.8	24.5	100.0

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: Bureau of the Census.

the change in consumer prices. Construction costs increased by 9.1% for the year, compared to an 11.3% increase in the CPI.

The rise in the cost of materials used in building moderated slightly from 1978 to 1979. Material costs increased by 10.2% last year, down from 12% in 1978 (Table 13). This price slowdown was reflected in the cost of most individual materials except southern pine, plumbing and heating fixtures, and paint.

Of particular interest is the relatively moderate increase in the price of petroleum-based asphalt roofing and paint. In 1974, when energy costs escalated at a rate comparable to that of last year, the price of these products increased by 47.7% and 25.8%, respectively, compared to increases of only 4.5% and 7.3% in 1979.

TABLE 10 • Subsidized Housing Starts

Year	Subsidized Units Started	Percentage of Total Starts
1965	62,589	4.1%
1966	68,364	5.7
1967	88,378	6.7
1968	162,827	10.5
1969	198,148	13.2
1970	429,192	29.2
1971	430,001	20.6
1972	332,300	14.0
1973	181,381	8.8
1974	87,149	6.4
1975	85,876	7.3
1976	130,144	8.4
1977	201,644	10.1
1978	263,322	13.0
1979*	257,661	14.8

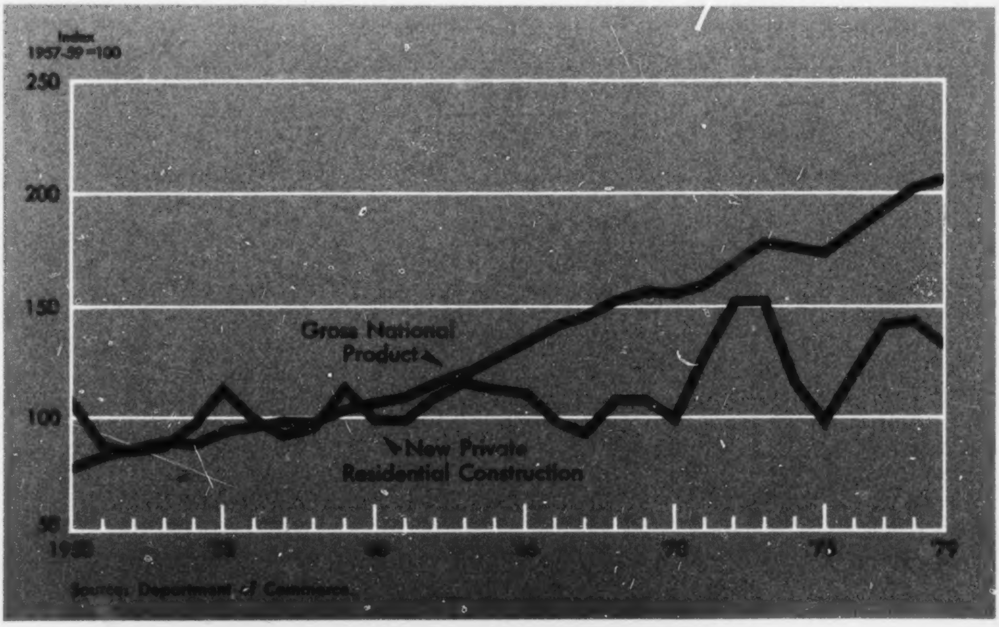
*Preliminary.
Sources: Bureau of the Census; Department of Housing and Urban Development.

Sales Prices

Builders are forced to pass rising construction costs through to the home buyer. The median price for a new one-family home sold in 1979 was $62,900, up from $55,700 in 1978 (Chart 8). On a percentage basis, the median price increased 12.9% in 1979, compared to 14.1% in 1978.

Following a long-term trend, the proportion of new single-family homes in the lower price ranges continued to contract in 1979. Only 10.2% of the homes sold in 1979 had a price less than $40,000, an enormous drop from 72.2% as recently as 1973 (Chart 9).

CHART 7 • Indexes of Gross National Product and Residential Construction
(Constant Dollar Basis)



Source: Department of Commerce.

The proportion of homes in the upper sales price range continued to remain high. Homes costing $75,000 or more made up 32.5% of the total homes sold in 1979, compared to 23% in 1978 (Table 15).

The increasing price of new homes is mainly a concern of those who plan to buy or build. But everybody is affected by home operating expenses. Using the appropriate expenditure classes of the CPI as a guide, one finds that homeownership costs and fuel and utility expenses have risen 60.8% and 59.3%, respectively, over the last five years.

Distribution of Starts

Although the 1973-75 recession brought a severe contraction in all sectors of residential construction, some suffered more than others. Between 1973 and 1975, one- to four-family starts fell 23.5%, while the multifamily sector experienced a staggering 74.3% decline over the two years.

From 1976 through 1978, one- to four-family starts rebounded strongly, exceeding even the 1972 boom period high in 1977 and 1978. On the other hand, multifamily starts, while increasing, were far below the 1972 level.

Because of the large decline in the number of multifamily units over the past few years, the distribution of housing starts has changed significantly. Over the 1970-73 period, units in multifamily buildings accounted for about 38% of all housing starts. This percentage dropped to a low of 17.6% in 1975 and reached only 24.5% in 1979 (Chart 10).

The most important reason for the sharp decline in multifamily construction during 1974 and 1975 was a deterioration in investors' confidence in the financial return offered by apartment buildings. The boom years early in the decade had seen some overbuilding which, in combination with the rent controls prevailing in certain localities, worked to restrain rent increases to levels below those required to cover rising costs. This factor operated in addition to the economy-wide discouragements to investment—tight credit markets, depressed incomes and extreme uncertainty about the economic future.

Some improvement in the rental situation has become evident in recent years. This development is covered in detail in the chapter on the real estate market. General investment conditions also were better, though an atmosphere of caution seemed to persist.

Apartment Building Starts

During 1968 the Department of Commerce began publishing data on the num-

TABLE 11 • Annual Dollar Volume of New Construction

(Dollar Amounts in Billions)

Item	1975	1976	1977	1978	1979*
Gross National Product	$1,528.8	$1,702.2	$1,899.5	$2,127.6	$2,369.4
Private Domestic Investment	$ 190.9	$ 243.0	$ 303.3	$ 351.5	$ 387.2
Construction Expenditures:					
Total Private	$ 93.7	$ 111.9	$ 135.8	$ 160.4	$ 178.1
Total Public	40.9	39.1	38.2	45.8	48.7
Total Private and Public	$ 134.5	$ 151.1	$ 174.0	$ 206.2	$ 226.7
Total Private Residential	$ 46.5	$ 60.5	$ 81.0	$ 93.4	$ 97.2
Private Construction as a Percentage of Total Construction.	69.7%	74.1%	78.0%	77.8%	78.6%
Private Residential Construction as a Percentage of:					
Gross National Product	3.0%	3.6%	4.3%	4.4%	4.1%
Private Domestic Investment.	24.4	24.9	26.7	26.6	25.1
Total Private Construction	49.6	54.1	59.6	58.2	54.6
Total Private and Public Construction	34.6	40.0	46.6	45.3	42.9

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: Department of Commerce.

ber of apartment buildings started, as differentiated from the data on the number of multifamily units started. One start on an apartment building may represent as many as 50 or 100 starts in terms of multifamily units.

The data show that in 1979, 426,900 private apartment units resulted from the groundbreaking for 31,200 buildings (Table 16). On the average, each apartment building represents almost 14 apartment units. Over the years covered by the Bureau of the Census report, the number of separate units per apartment building has been generally declining. In 1965, for instance, each apartment building contained an average of 17 to 18 apartment units.

Data on Completions

In 1970 the Bureau of the Census and the Department of Housing and Urban Development began jointly publishing data on housing completions. These data show the number of units completed each month as well as the number started.

Over time, completion figures closely

TABLE 12 • Percentage Change in Residential Construction Costs and Consumer Prices

Year	Residential Construction	Consumer Prices
1950	5.5%	1.0%
1955	3.0	− 0.4
1960	1.6	1.6
1965	3.2	1.7
1966	4.4	2.9
1967	6.0	2.9
1968	7.3	4.2
1969	8.3	5.4
1970	5.4	5.9
1971	8.5	4.3
1972	9.8	3.4
1973	9.2	6.2
1974	8.1	11.0
1975	6.7	9.1
1976	8.2	5.8
1977	9.0	6.5
1978	9.0	7.7
1979	9.1	11.3

Sources: E. H. Boeckh and Associates; Department of Labor.

TABLE 14 • Boeckh Index of Residential Construction Cost

Year	Index†	Year	Index†
1950	43.2	1971	91.1
1955	49.7	1972	100.0
1960	56.1	1973	109.2
1965	62.0	1974	118.0
1966	64.7	1975	125.9
1967	68.6	1976	136.2
1968	73.6	1977	148.5
1969	79.7	1978	161.8
1970	84.0	1979*	176.6

*Preliminary.
†1972=100.
Source: E. H. Boeckh and Associates.

TABLE 13 • Percentage Change in Cost of Selected Building Materials

Material	1974	1975	1976	1977	1978	1979†
Concrete Products ...	20.3%	7.0%	5.7%	6.9%	14.6%	12.2%
Douglas Fir	−15.3	19.6	26.3	7.6	20.5	11.6
Southern Pine	−18.5	10.1	27.8	24.7	8.1	11.8
Plumbing Fixtures	24.0	1.3	9.6	-7.1	6.0	10.4
Heating Equipment ..	22.1	4.5	4.3	4.6	5.8	8.5
Hardwood Lumber ..	−22.7	−12.9	36.4	14.0	30.2	8.2
Paint	25.8	5.2	4.2	4.9	6.9	7.3
Millwork	2.0	7.4	11.1	11.5	18.3	6.6
Plywood	−10.3	13.9	21.0	10.0	10.3	5.9
Asphalt Roofing	47.7	5.0	2.5	20.8	11.1	4.5
Building Board	1.0	8.6	9.5	18.4	9.3	−2.1
All Materials	16.5%	6.0%	9.9%	8.7%	12.0%	10.2%

†12 months ending October.
Source: Department of Commerce.

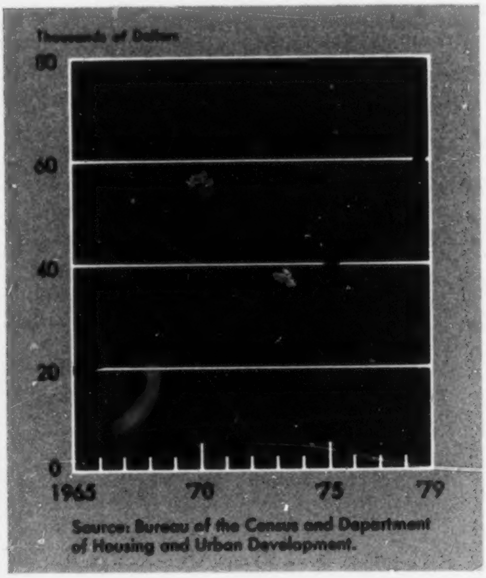
reflect the number of units started, but the short-run relationship between starts and completions is subject to considerable variation. In this regard, the proportion of multifamily starts involved is important for two reasons.

First, multifamily buildings require a longer construction period, which means that an increase in the proportion of starts represented by apartment units may, in the short run, produce a downturn in completions relative to starts.

Second, a multifamily unit is considered started when ground is broken for the building, and completed when half the units in the building are occupied or available for occupancy. Changes in the construction status of relatively few buildings can, therefore, cause considerable changes in the number of unit completions reported.

Shifts in the lag between housing starts and completions can have an impact on cash flows into the mortgage market. Construction loans are disbursed over the period of construction, while permanent financing is closed upon completion, so funds movements may be affected in the short run by building delays.

CHART 8 • Median Sales Price of New One-family Homes Sold

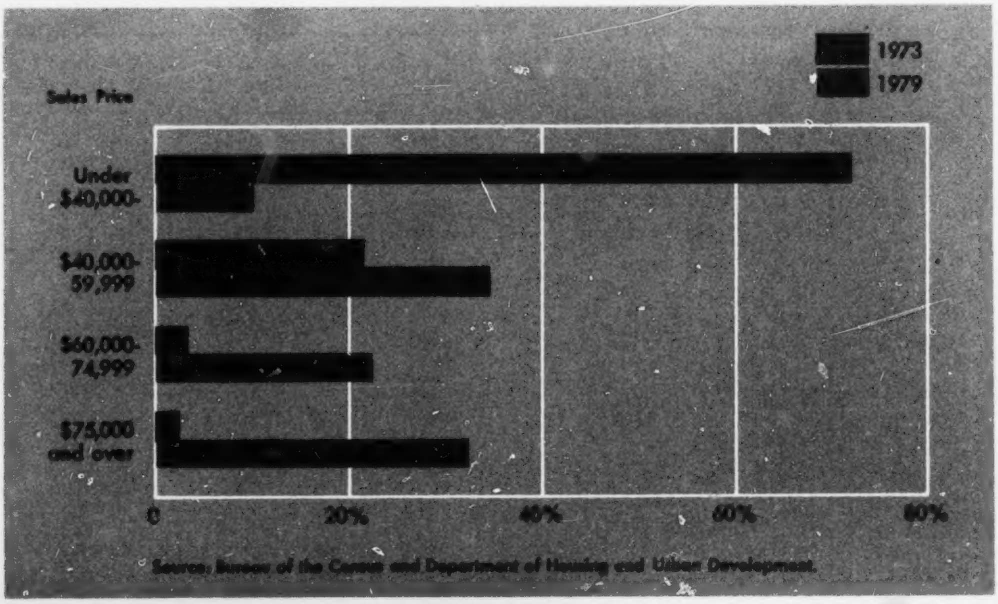


Source: Bureau of the Census and Department of Housing and Urban Development.

Developer Building

Of all single-family homes started in 1979, 40% were contracted for or built by owners for their own use on land to which they held title. The remaining 60%—

CHART 9 • New One-family Homes Sold, by Sales Price
(Percentage Distribution)



Source: Bureau of the Census and Department of Housing and Urban Development.

712,000 units—were constructed by developers for the sales market (Chart 11).

Nineteen percent of developer-built homes were sold before the foundation was laid and 43% were sold while under construction; only 38% were sold after completion. The proportion unsold at completion was up somewhat from the 33% figure in 1977 and 1978, but compares favorably with the 39% of developer-built homes unsold at completion in 1976, the 45% unsold in 1975 and the 48% unsold in 1974.

At the seasonally adjusted rate of sales prevailing at year-end 1979, the existing inventory of developer-built, single-family homes amounted to a nine months' supply.

Mobile Homes

In addition to the 1.2 million private single-family housing units provided by fixed-site construction during 1979, 276,900 new single-family dwellings were provided by mobile home shipments. These shipments accounted for 18.8% of the total number of new single-family units and 15.9% of the total number of privately

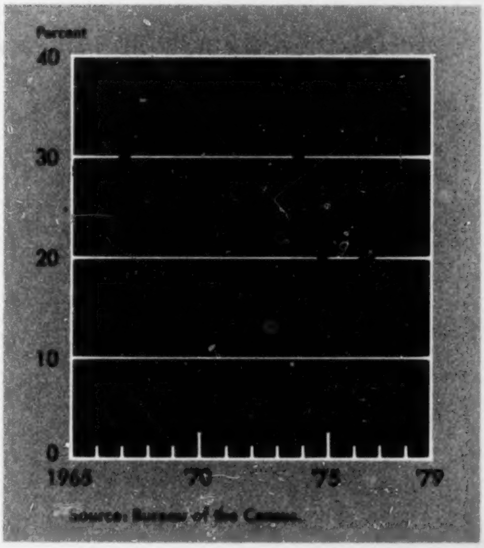
TABLE 15 • New One-family Homes Sold, by Sales Price

(Thousands)

Year	Under $40,000	$40,000-49,999	$50,000-59,999	$60,000-74,999	$75,000-99,999	$100,000 and Over
1973	457	98	40	22	16	
1974	332	98	48	26	14	
1975	288	127	65	44	25	
1976	250	168	100	76	51	
1977	233	200	149	123	78	37
1978	142	175	156	157	119	69
1979*	73	113	136	160	131	101

*Preliminary.
Source: Bureau of the Census and Department of Housing and Urban Development.

CHART 10 • Apartment Building as a Percentage of Private Housing Starts



Source: Bureau of the Census.

TABLE 16 • Private Starts of Apartment Buildings and Units

Year	Number of Buildings†	Number of Apartment Units
1965	24,300	422,500
1966	19,100	325,100
1967	23,100	376,100
1968	32,400	527,300
1969	35,600	571,200
1970	31,700	535,900
1971	48,900	780,900
1972	56,800	906,200
1973	50,800	795,000
1974	25,500	381,600
1975	14,700	204,300
1976	21,600	289,200
1977	30,500	414,400
1978	31,700	462,000
1979*	31,200	426,900

*Preliminary.
†Apartment buildings with five or more units.
Source: Bureau of the Census.

built housing units (Table 17).

While this percentage is down from the figures of the early 1970s, it still represents a sizable addition to the housing stock. A mobile home has become a widely accepted substitute for the traditionally constructed one-family home.

The decline in the availability of low-cost new homes has contributed to the popularity of the mobile home. Furthermore, buyers can now be more confident about the safety and quality of the product. Units built for sale in the United States after June 15, 1976, must conform to the National Standards for Mobile Homes set by the Department of Housing and Urban Development.

The improvement in the quality of these homes has helped make lenders more willing to finance their purchase at rates and terms approaching those available for fixed-site homes. Furthermore, insurance and guarantees that are available through the Veterans Administration, the Federal Housing Administration and the Farmers Home Administration reduce risk to the lender and, therefore, interest costs to the mobile home buyer.

TABLE 17 • Mobile Home Shipments

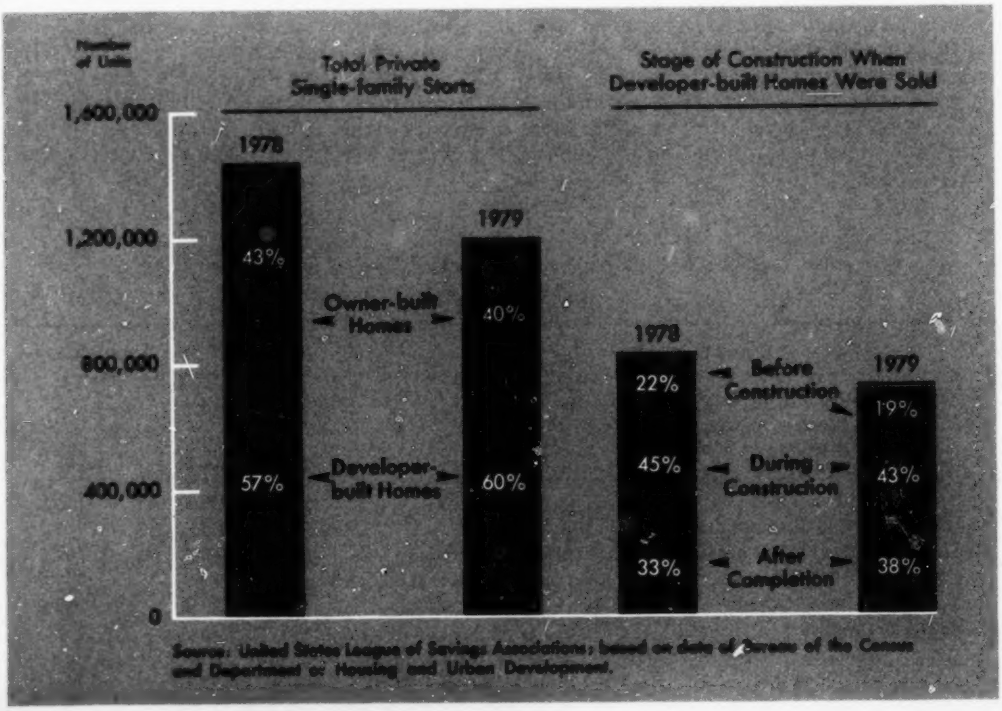
Year	Number of Units	% of Private Starts	
		Total	Single-family†
1960	103,700	8.3%	9.4%
1965	216,470	14.7	18.3
1966	217,300	18.7	21.8
1967	240,360	18.6	22.2
1968	317,950	21.1	26.1
1969	412,690	28.1	33.7
1970	401,190	28.0	33.0
1971	496,570	24.2	30.1
1972	575,940	24.4	30.6
1973	566,920	27.7	33.4
1974	329,300	24.6	27.0
1975	212,690	18.3	19.2
1976	246,120	16.0	17.5
1977	277,000	13.9	16.0
1978	275,900	13.7	16.1
1979*	276,900	15.9	18.8

*Preliminary.

†Single-family conventional homes and mobile homes.

Sources: Department of Commerce; Manufactured Housing Institute; National Conference of States on Building Codes and Standards.

CHART 11 • Private Single-family Housing Starts, 1978 and 1979



Source: United States League of Savings Associations; based on data of Bureau of the Census and Department of Housing and Urban Development.

Residential Financing

RESIDENTIAL FINANCING is one of the most substantial uses of credit in our nation. This fact is too often obscured by the attention given to the massive borrowings of government units and large corporations.

Residential credit has grown more since the mid-century than any other single form of credit. From 1950 to 1979, total credit outstanding in the nation rose almost 10-fold, to $4,246 billion (Table 18). Residential mortgage loans increased more than 18-fold in the same time, climbing from $54.5 billion to $1,000.3 billion (Chart 12) and representing 23.6% of all credit outstanding in the U.S. by 1979. The only other single type of credit of comparable magnitude was the federal debt, which totaled $916.7 billion in 1979, more than four times as large as its 1950 level of $218.4 billion.

Corporate and foreign bonds, long-term instruments similar in some respects to mortgage loans, grew $416.5 billion over the same period, 44% of the gain registered by residential credit. The federal debt grew by $698.3 billion, while much smaller increases occurred in the outstanding amounts of state and local government obligations, consumer credit and mortgages secured by commercial properties.

The change in residential mortgage loans outstanding, as well as in other types of credit, represents net growth. It reflects only the *difference* between new borrowings and repayments of existing debt. In order to make valid comparisons it is important to avoid confusing net growth with other measures of credit activity, particularly the gross amount of new lending.

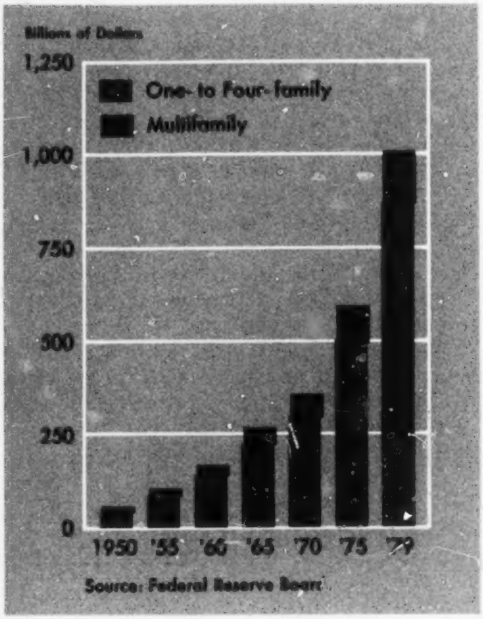
TABLE 18 • Growth in Selected Types of Credit

(Billions of Dollars)

Type of Credit	1950	1979*	Increase
Total Credit Outstanding	$427.0	$4,246.0	$3,819.0
Residential Mortgage Loans:			
One- to Four-family Homes	45.2	868.3	823.1
Multifamily Units	9.3	132.0	122.7
Total	54.5	1,000.3	945.8
Corporate and Foreign Bonds	39.2	455.7	416.5
State and Local Government Obligations	24.4	312.7	288.3
Consumer Credit	21.5	382.3	360.8
Mortgages on Commercial Properties	12.5	240.0	227.5
Federal Debt	218.4	916.7	698.3

*Preliminary.
Sources: Federal Reserve Board; United States League of Savings Associations.

CHART 12 • Residential Mortgage Loans Outstanding at Year-end



Source: Federal Reserve Board

Residential and Private Credit

Residential credit growth has made up a major portion of the expansion in private credit since 1950. In the five-year periods ending in 1955, 1960 and 1965, the net increase in residential mortgage loans outstanding accounted for about 35% of the growth in total private credit (Table 19). The proportion declined to 25% in the 1965-70 period, then rose to 31.3% in 1970-75. It averaged 35.4% in 1976-79.

Variations in the contribution of residential credit to the total increase in private credit are partly due to changes in the availability of mortgage loans.

Loan Volatility

The volatility in residential credit growth is evident when year-to-year gains are compared. In the five years ending in 1965 the average annual increase was 9.7% (Table 20). It fell to 6% in the crunch year of 1966. A sharp jump in yearly rates occurred in the early 1970s, as they reached a high of 14.2% in 1972. The years 1974 and 1975 brought a severe decline to a level below 8% in the rate of increase, while 1976 saw a recovery to

TABLE 19 • Growth in Residential Mortgage Loans and Total Private Credit

(Dollar Amounts in Billions)

Period	Increase in Total Private Credit	Increase in Residential Mortgage Loans			Residential Loan Increase as a % of Total Credit Increase		
		Home Loans	Apartment Loans	Total Loans	Home Loans	Apartment Loans	Total Loans
1950-1955	$ 132.0	$ 43.1	$ 4.2	$ 47.3	32.7%	3.2%	35.8%
1955-1960	176.8	53.7	7.3	61.0	30.4	4.1	34.5
1960-1965	273.8	78.5	17.4	95.9	28.7	6.4	35.0
1965-1970	397.1	77.2	21.9	99.1	19.4	5.5	25.0
1970-1975	746.5	193.1	40.5	233.6	25.9	5.4	31.3
1971	116.9	29.9	9.9	39.8	25.6	8.5	34.0
1972	151.8	43.8	12.7	56.5	28.9	8.4	37.2
1973	187.4	44.8	10.4	55.2	23.9	5.5	29.5
1974	173.6	33.2	6.9	40.1	19.1	4.0	23.1
1975	116.8	41.4	0.6	42.0	35.4	0.5	36.0
1976	191.7	65.7	3.9	69.6	34.3	2.0	36.3
1977	279.0	99.7	7.3	107.0	35.7	2.6	38.4
1978	343.0	105.7	10.2	115.9	30.8	3.0	33.8
1979*	354.0	106.4	10.0	116.4	30.1	2.8	32.9
1950-1979*	$2,893.9	$823.1	$122.7	$945.8	28.4%	4.2%	32.7%

Note: Components may not add to totals due to rounding.
*Preliminary.
Sources: Federal Reserve Board; United States League of Savings Associations.

11.8%. There was a dramatic improvement to 16.2% in 1977, although the gain then eased back to 13.2% by 1979.

The volatility of residential credit generally reflects the volatility of deposit growth at thrift institutions. The sharp declines in the availability of mortgage credit in 1966 and 1974 were largely caused by severe contractions in savings growth at associations. The strong surges in loan growth in 1971-72 and 1976-79 can be attributed partly to strong savings growth in those years.

The year 1975, however, was unusual in this regard. Although savings inflows to savings and loan associations were at record levels, residential credit grew a modest 7.6% for the year. This low growth rate was not caused by a constricted supply of funds, but rather by the weakness of demand for mortgages, resulting from the unwillingness of consumers to buy new homes in uncertain economic times.

Types of Mortgage Loans

The data on mortgage loans outstanding are reported on the basis of the type of property securing the loan. The classifications are one- to four-family loans, multifamily loans, loans on commercial properties and loans on farms.

At year-end 1979, loans outstanding on one- to four-family homes were the largest segment of total mortgage loans. They totaled $868.3 billion, 65.1% of all mortgage loans (Table 21 and Chart 13). Multifamily loans accounted for $132 billion, or 9.9%. These two segments brought residential mortgages to $1,000.3 billion, or 75% of all debt secured by real estate. Commercial property loans amounted to $240 billion, or 18%. Trailing far behind were farm mortgages at $93.4 billion, or 7%.

Sources of Mortgage Credit

Savings associations are the major source of residential credit in the United States. At year-end 1979 the mortgage portfolios of associations accounted for 45.3% of all the one- to four-family loans outstanding and 29.2% of all the loans secured by multifamily units (Table 22). Associations' share of all residential mortgages amounted to 43.2%.

In 1979, savings and loan associations accounted for 35% of the increase in loans outstanding on one- to four-family homes. In the multifamily sector, associations increased their holdings of mortgages by $2.4 billion while other lenders increased theirs by $7.6 billion.

Residential loans held by the U.S. government and federal agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Farmers Home Administration may be deducted from total holdings to arrive at the mortgages held by the private sector. When such a deduction is made the contribution of savings associations becomes even more significant. At year-end 1979, associations held 55.3% of all one- to four-family home loans and 52.5% of total residential loans in the private sector.

In the private sector, in order of the total amount of residential loans held, savings associations were followed by commercial banks, mutual savings banks and life insurance companies (Table 23).

Home and Apartment Loans

The bulk of the mortgage debt financing one- to four-family homes is held by

TABLE 20 • Residential Mortgage Loans Outstanding and Annual Increase

(Dollar Amounts in Billions)

Year	Total Residential Debt	Annual Increase†	Percentage Increase†
1950	$ 54.5	$ 6.0	17.5%
1955	101.7	9.5	13.3
1960	162.7	12.2	9.8
1965	258.7	19.2	9.7
1966	274.2	15.5	6.0
1967	292.0	17.8	6.5
1968	312.9	20.9	7.2
1969	335.9	23.0	7.4
1970	357.8	21.9	6.5
1971	397.6	39.8	11.1
1972	454.1	56.5	14.2
1973	509.3	55.2	12.2
1974	549.4	40.1	7.9
1975	591.4	42.0	7.6
1976	661.0	69.6	11.8
1977	768.0	107.0	16.2
1978	883.9	115.9	15.1
1979*	1,000.3	116.4	13.2

*Preliminary.
†1950, 1955, 1960 and 1965 increases are five-year annual averages.
Source: Federal Reserve Board.

savings and loan associations (Chart 14). Their $393.4 billion of such loans at year-end 1979 accounted for 45.3% of the total $868.3 billion held by all lenders (Table 24 and Chart 15).

Associations provided 35% of the

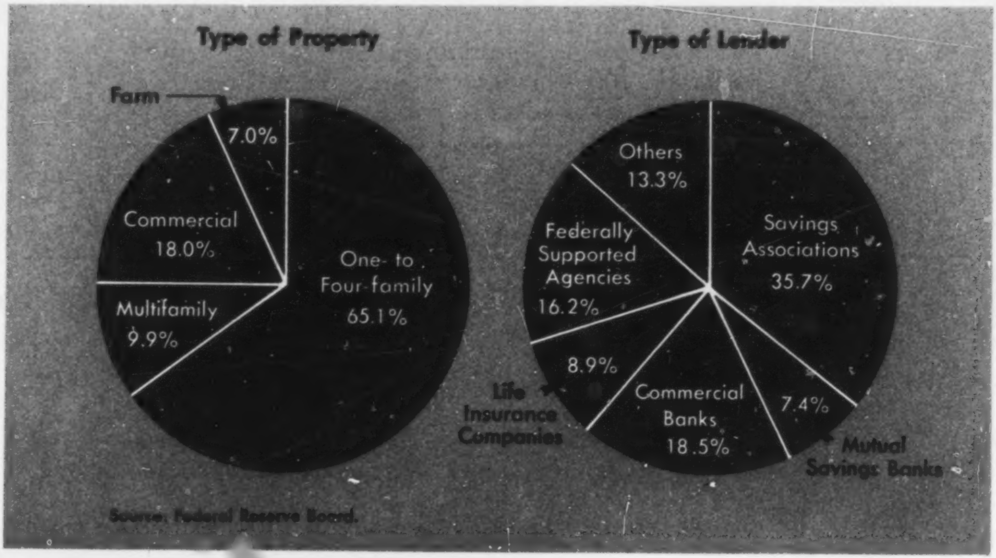
TABLE 21 • Mortgage Loans Outstanding, by Type of Property

(Billions of Dollars)

Year-end	Residential Properties One- to Four-family	Residential Properties Multi-family	Residential Properties Total	Commercial Properties	Farm Properties	All Properties
1950	$ 45.2	$ 9.3	$ 54.5	$ 12.5	$ 6.1	$ 73.0
1955	88.2	13.5	101.7	19.3	9.0	130.1
1960	141.9	20.8	162.7	33.4	12.8	208.9
1965	220.5	38.2	258.7	55.5	21.2	335.3
1966	232.9	41.3	274.2	61.2	23.1	358.4
1967	247.2	44.8	292.0	65.8	25.0	382.9
1968	264.6	48.3	312.9	72.5	27.2	412.5
1969	282.7	53.2	335.9	78.4	29.0	443.2
1970	297.7	60.1	357.8	85.5	29.8	473.1
1971	327.6	70.0	397.6	95.8	32.2	525.7
1972	371.4	82.7	454.1	112.6	35.8	602.4
1973	416.2	93.1	509.3	131.7	41.3	682.3
1974	449.4	100.0	549.4	146.9	46.3	742.5
1975	490.8	100.6	591.4	159.3	50.9	801.5
1976	556.5	104.5	661.0	171.2	57.0	889.2
1977	656.2	111.8	768.0	189.8	65.7	1,023.5
1978	761.9	122.0	883.9	212.6	76.0	1,172.5
1979*	868.3	132.0	1,000.3	240.0	93.4	1,333.7

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: Federal Reserve Board.

CHART 13 • Mortgage Loans Outstanding, by Type of Property and Type of Lender, Year-end 1979



Source: Federal Reserve Board.

$106.4 billion net increase in one- to four-family mortgage credit outstanding last year. Commercial banks held 16.8% of one- to four-family loans at the end of 1979, and accounted for 18% of the year's net increase.

Mutual savings banks and life insurance companies accounted for 7.5% and 1.8%, respectively, of home loans outstanding at year-end. Both groups are of declining relative importance in this market.

Savings and loan associations are the largest single holders of mortgage loans on multifamily buildings (Chart 16). With a year-end 1979 total of $38.5 billion, associations accounted for 29.2% of the $132 billion owed on all multifamily mortgages (Table 25). Savings and loan associations accounted for 24% of the 1979 net increase in multifamily mortgage loans.

Commercial banks are less important in apartment building financing than in one- to four-family financing. They held only 9.5% of the multifamily loans outstanding at year-end 1979. Life insurance companies and mutual savings banks, on the other hand, play a greater role in the multifamily market, holding, respectively, 14.7% and 13% of multifamily loans.

Federal Agency Support

Federal agencies became an influential force in the residential mortgage market in the latter half of the 1960s. The federal agencies buy and sell existing loans, or provide credit to primary lenders. They have no direct contact with the public, but operate their programs through savings and loan associations, commercial banks, savings banks and mortgage bankers.

They include the Federal National Mortgage Association, the Government National Mortgage Association and the Federal Home Loan Bank System. These organizations are described more fully in the sections of this book on the Federal Home Loan Bank System and other government agencies.

The 1966 credit crisis stimulated the creation of new programs and the augmentation of existing programs of these organizations. Because of the decline in savings at thrift institutions, 1969 would have been similar to 1966 but for the support provided by the federal agency lenders. In 1969 their aggressive implementation of mortgage credit programs provided enough resources to support 36.6% of the increase in residential mortgage loans (Table 26).

In 1971, when deposit flows were strong, federal agency lenders decreased their support and provided only 0.9% of the total increase in residential mortgage credit in that year.

In 1972, although private financial institutions were well supplied with funds, the agencies added $2.7 billion to their investment. In 1973 and 1974, as deposit inflows to financial institutions slowed, the federal agency lenders stepped up their support of the residential mortgage mar-

TABLE 22 • Residential Mortgage Loans Outstanding and Savings Association Share, 1979*

(Dollar Amounts in Billions)

	One- to Four-family		Multifamily		Total Residential	
Item	Year-end Total	1979 Increase	Year-end Total	1979 Increase	Year-end Total	1979 Increase
All Lenders	$868.3	$106.4	$132.0	$10.0	$1,000.3	$116.4
All Private Lenders†	711.0	72.1	111.2	7.3	822.2	79.4
Savings Associations ...	393.4	37.2	38.5	2.4	431.9	39.6
Association Share of Total Market	45.3%	35.0%	29.2%	24.0%	43.2%	34.0%
Association Share of Private Market	55.3%	51.6%	34.6%	32.9%	52.5%	49.9%

Note: Components may not add to totals due to rounding.
*Preliminary.
†Excludes holdings of federal agencies, the U.S. government and mortgage pools.
Sources: Federal Home Loan Bank Board: Federal Reserve Board.

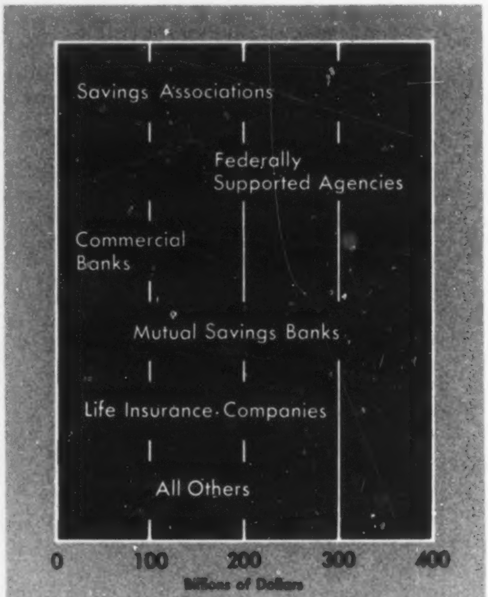
ket, accounting for a huge 37.1% of the increase in residential debt in 1974.

In the years since, the government agencies reduced their support operations as inflows to thrift institutions increased. In 1975, agency-supported debt accounted for only 3% of the increase in total residential debt, while in 1976 their stock of loans was allowed to shrink by $4.8 billion. In 1977 the government agencies nearly offset the prior year's shrinkage as they provided $4.2 billion in residential loan support. Then in 1978, with heavy demands for mortgage credit, the total federal agency support reached a record $21.1 billion. In 1979 the figure dropped somewhat, to $17.8 billion.

These organizations are the targets of some criticism. Prior to 1968, government support of housing was exercised in large measure by granting important tax concessions to specialized mortgage lending institutions.

In place of this oblique role in the nation's housing, the government now exercises more direct support through the federal agencies. Since these agencies are tapping the capital markets, they reduce the resources available to direct lenders in the form of deposits. Thus, these agencies, as constituted, are posing a threat to the continued growth of the private intermediaries in the mortgage market.

CHART 14 • Mortgage Loans Outstanding on One- to Four-family Homes, by Type of Lender, Year-end 1979



Sources: Federal Home Loan Bank Board; Federal Reserve Board.

Private Mortgage Insurance

The insurance of residential mortgages has for some time been an important factor in this country's housing. By guaranteeing the repayment of all or part of a loan, mortgage insurance has reduced the risk to primary mortgage lenders and

TABLE 23 • Mortgage Loans Outstanding, by Type of Lender and Type of Property, Year-end 1979*

(Billions of Dollars)

	Residential Properties					
Lender	One- to Four-family	Multi-family	Total	Commercial Properties	Farm Properties	Total Mortgage Loans
Savings Associations	$393.4	$ 38.5	$ 431.9	$ 43.8	†	$ 475.8
Commercial Banks	146.1	12.6	158.7	77.7	$10.4	246.8
Mutual Savings Banks	64.7	17.2	81.9	16.9	†	98.7
Life Insurance Companies	15.4	19.4	34.8	72.1	12.3	119.2
All Others	248.7	44.3	293.0	29.5	70.7	393.2
Total	$868.3	$132.0	$1,000.3	$240.0	$93.4	$1,333.7

Note: Components may not add to totals due to rounding.
*Preliminary.
†Less than $50 million.
Sources: Federal Home Loan Bank Board; Federal Reserve Board.

thereby enhanced residential financing. Prior to 1957, mortgage insurance was the exclusive domain of the federal government, which operated through the Federal Housing Administration and the Veterans Administration.

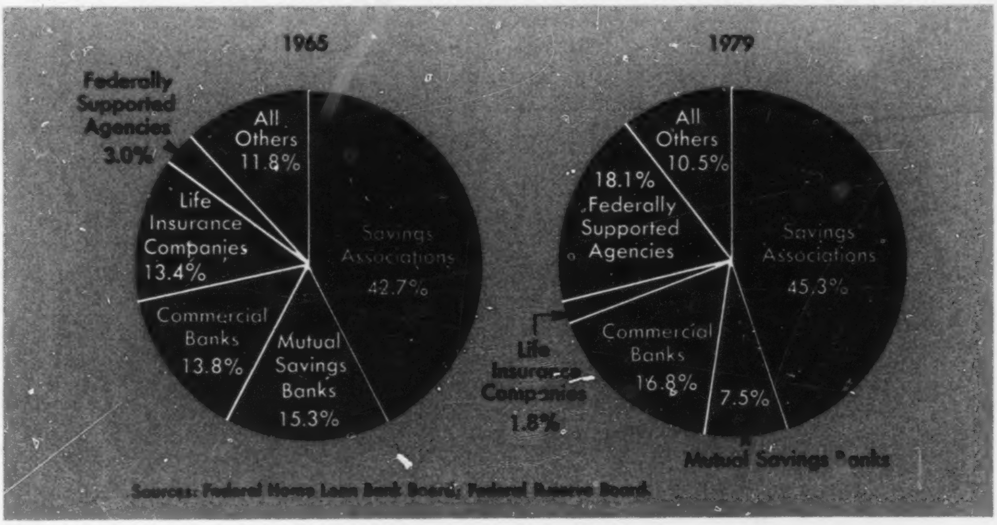
TABLE 24 • Mortgage Loans Outstanding on One- to Four-family Homes, by Type of Lender

(Billions of Dollars)

Year-end	Savings Associations	Mutual Savings Banks	Commercial Banks	Life Insurance Companies	Federally Supported Agencies†	All Others	Total
1950	$ 13.1	$ 4.3	$ 9.5	$ 8.5	$ 1.5	$ 8.3	$ 45.2
1955	30.0	11.8	15.1	17.7	3.0	10.6	88.2
1960	55.4	20.6	19.2	24.9	7.1	14.7	141.9
1965	94.2	33.8	30.4	29.6	6.6	25.9	220.5
1966	97.4	35.6	32.8	30.2	9.4	27.5	232.9
1967	103.2	37.7	35.3	29.8	11.8	29.4	247.2
1968	110.1	39.5	38.8	29.0	14.8	32.4	264.6
1969	117.7	41.1	41.4	27.6	19.1	35.8	282.7
1970	124.5	42.1	42.3	26.8	24.7	37.3	297.7
1971	141.0	43.4	48.0	24.6	30.5	40.1	327.6
1972	165.6	46.2	57.0	22.3	36.1	44.2	371.4
1973	187.1	48.8	68.0	20.4	41.9	50.0	416.2
1974	201.0	49.2	74.8	19.0	53.5	51.9	449.4
1975	223.9	50.0	77.0	17.6	67.9	54.4	490.8
1976	260.8	53.1	86.2	16.1	80.0	60.3	556.5
1977	310.7	57.6	105.1	14.7	99.2	68.9	656.2
1978	356.2	62.3	127.0	14.4	123.0	79.0	761.9
1979*	393.4	64.7	146.1	15.4	157.3	91.4	868.3

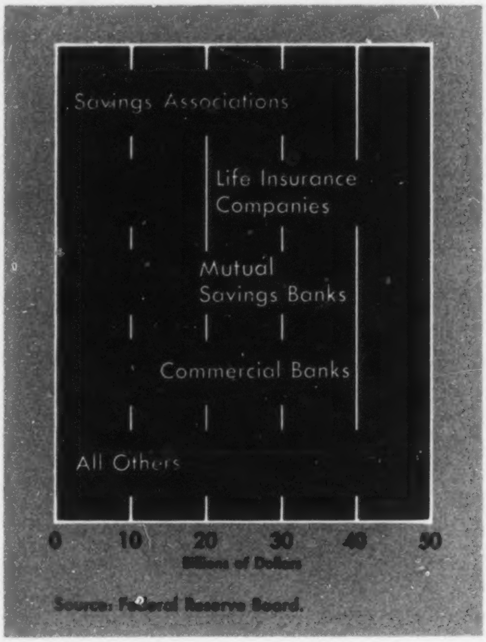
*Preliminary.
†Including mortgage pools.
Source: Federal Reserve Board.

CHART 15 • Mortgage Loans Outstanding on One- to Four-family Homes, by Type of Lender, Year-end 1965 and 1979



Sources: Federal Home Loan Bank Board; Federal Reserve Board.

CHART 16 • Multifamily Mortgage Loans Outstanding, by Type of Lender, Year-end 1979



Source: Federal Reserve Board.

A striking innovation by the private sector appeared in 1957 with the organization of the first nongovernment mortgage insurance company since the depression of the 1930s. By the end of 1979, 14 private companies were providing mortgage insurance across the country, all chartered by various states and operating under state insurance regulations. Such private firms are approved by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association as qualified insurers of conventional home loans traded in the secondary market.

The FHA normally provides 100% coverage for its insured loans. The VA guarantee on an eligible mortgage loan varies depending upon the particular program but typically amounts to no more than 60% of the outstanding loan balance. The private firms insure only the top 20% to 25% of a loan, sharing the risk with the primary lender.

At year-end 1979, private mortgage insurance in force totaled $95.2 billion (Table 27). This outstanding insured obligation was 11% of the total one- to four-family mortgage debt. Government programs provided $168.3 billion of insurance

TABLE 25 • Multifamily Mortgage Loans Outstanding, by Type of Lender
(Billions of Dollars)

Year-end	Savings Associations	Mutual Savings Banks	Commercial Banks	Life Insurance Companies	All Others	Total
1950	$ 0.2	$ 2.7	$ 1.0	$ 2.6	$ 2.8	$ 9.3
1955	0.6	3.7	0.8	3.6	4.8	13.5
1960	2.2	3.7	1.1	3.9	9.9	20.8
1965	8.1	6.3	2.0	8.8	13.0	38.2
1966	8.6	6.6	2.1	10.3	13.7	41.3
1967	9.5	7.0	2.4	11.7	14.2	44.8
1968	10.5	7.3	2.7	12.8	15.0	48.3
1969	11.7	7.6	3.2	14.2	16.5	53.2
1970	13.8	7.8	3.3	16.0	19.2	60.1
1971	17.5	9.6	4.0	16.7	22.2	70.0
1972	21.0	10.9	5.8	17.3	27.7	82.7
1973	22.8	12.3	6.9	18.5	32.6	93.1
1974	23.8	12.9	7.6	19.6	36.1	100.0
1975	25.5	13.8	5.9	19.6	35.8	100.6
1976	28.4	14.2	8.1	19.2	34.6	104.5
1977	32.5	15.3	9.2	18.8	36.0	111.8
1978	36.1	16.5	10.9	19.0	39.5	122.0
1979*	38.5	17.2	12.6	19.4	44.3	132.0

*Preliminary.
Source: Federal Reserve Board.

TABLE 26 • Annual Change in Agency-supported Residential Debt

(Dollar Amounts in Millions)

Year	FNMA and GNMA Holdings	FHLMC Holdings	FHLB Advances	Total Agency Support	All Residential Debt	Agency Support as a % of All Residential Debt
1950	$ 519		$ 383	$ 902	$ 9,000	10.0%
1955	180		549	729	13,400	5.4
1960	759		— 153	606	13,200	4.6
1965	— 42		672	630	20,800	3.0
1966	2,232		938	3,170	15,500	20.5
1967	1,807		—2,549	— 742	17,800	— 4.2
1968	2,517		873	3,390	20,900	16.2
1969	4,378		4,030	8,408	23,000	36.6
1970	4,911	$ 325	1,326	6,562	21,900	30.0
1971	2,395	643	—2,679	359	39,800	0.9
1972	1,801	820	43	2,664	56,500	4.7
1973	3,300	816	7,168	11,284	55,200	20.4
1974	6,222	1,982	6,657	14,861	40,100	37.1
1975	4,838	401	—3,959	1,280	42,000	3.0
1976	—2,117	— 718	—1,983	— 4,818	69,600	— 6.9
1977	884	—1,002	4,311	4,193	107,000	3.9
1978	8,791	— 176	12,497	21,112	115,900	18.2
1979*	7,651	961	9,168	17,780	116,400	15.3

---

*Preliminary.

Sources: Federal Home Loan Bank Board; Federal Home Loan Mortgage Corporation; Federal National Mortgage Association; Federal Reserve Board; Government National Mortgage Association.

TABLE 27 • Growth in One- to Four-family Mortgage Debt, Private Mortgage Insurance, and FHA and VA Insurance

(Dollar Amounts in Billions)

Year-end	One- to Four-family Mortgage Debt		Private Mortgage Insurance		One- to Four-family FHA/VA Insurance	
	Outstanding	% Increase	In Force	% Increase	In Force	% Increase
1960	$141.9	8.4%	$ 0.3	n.a.	$ 56.4	4.8%
1965	220.5	8.4	3.3	37.5%	73.1	5.6
1966	232.9	5.6	3.9	18.2	76.1	4.1
1967	247.2	6.1	4.6	17.9	79.9	5.0
1968	264.6	7.0	5.8	26.1	84.4	5.6
1969	282.7	6.8	6.6	13.8	90.2	6.9
1970	297.7	5.3	7.3	10.6	97.3	7.9
1971	327.6	10.0	9.6	31.5	105.2	8.1
1972	371.4	13.4	17.5	82.3	113.0	7.4
1973	416.2	12.1	27.4	56.6	116.2	2.8
1974	449.4	8.0	33.6	22.6	121.3	4.4
1975	490.8	9.2	40.0	19.0	127.7	5.3
1976	556.5	13.4	49.3	23.3	133.5	4.5
1977	656.2	17.9	62.8	27.4	141.6	6.1
1978	761.9	16.1	80.5	28.2	153.4	8.3
1979*	868.3	14.0	95.2	18.3	168.3†	9.7‡

---

*Preliminary.

†September 30.

‡Nine-month increase.

Sources: Federal Housing Administration; Federal Reserve Board; Mortgage Insurance Companies of America; Veterans Administration.

at the end of September 1979. However, private insurance has been growing at an average annual rate of 33% since 1970, compared to a 6.3% average annual increase in FHA and VA insurance. However, during 1979, private companies insured 577,950 mortgage loans, while the Federal Housing Administration and Veterans Administration provided coverage for 771,971 loans (Table 28).

The Secondary Market

The secondary mortgage market is the aggregate buying, selling and trading of existing mortgage loans and mortgage-related security instruments. The mortgages involved may be FHA-insured, VA-guaranteed or conventional loans with or without private mortgage insurance.

Institutional lenders such as savings associations buy loans in the secondary market when they have available funds that they cannot invest in new mortgages in their own area due to a lack of demand, or to locally prevailing economic or regulatory conditions. Investors that do not have the facilities to originate or service mortgage loans also use the secondary market to acquire loans.

Correspondingly, mortgage lenders that wish to free funds from their existing portfolios sell either whole mortgages or interests in blocks of loans in the secondary market.

The federal agency lenders operate primarily in the secondary market. They have generally been net purchasers. In the private sector, associations normally are the most important buyers of loans, while mortgage companies dominate the selling side. The chapter of this book on mortgage lending discusses savings association secondary market operations in more detail.

Mortgage Pools

Mortgage holders may set up pools by packaging mortgages they own and issuing securities that represent shares in the package. The creator of the pool continues to collect payments of principal and interest on the mortgages and distributes the payments to the holders of the securities.

In 1968 the Government National Mortgage Association was created by amendment to the National Housing Act. One purpose of GNMA was to provide a vehicle for the approval and guarantee of mortgage-backed securities. This enabled the securities to be sold and traded like government-backed bonds, tapping a significant fund of investment capital for use in residential financing. To date, most pools have been federally sponsored; that is, a government credit agency guarantees the payment of principal and interest to the holders of the securities. These federally sponsored pools fall mainly under two programs: the Government National Mortgage Association's pass-through program, and the Federal Home Loan Mortgage Corporation's Participation Certificates.

TABLE 28 • Number of Home Mortgages Insured, 1979

Month	Private Companies	FHA	VA
Jan. ...	47,829	34,537	33,184
Feb. ...	34,950	34,274	31,296
Mar. ..	41,407	34,598	32,491
Apr. ...	46,734	24,683	24,422
May ...	54,809	33,701	23,621
June ...	54,970	34,587	23,543
July ...	57,184	34,767	31,283
Aug. ...	55,908	35,538	35,287
Sept. ..	45,335	36,683	38,673
Oct. ...	52,993	44,233	22,371
Nov. ..	46,230	40,011	28,569
Dec. ...	39,601	28,254	31,365
Total ...	577,950	415,866	356,105

Sources: Federal Housing Administration; Mortgage Insurance Companies of America; Veterans Administration.

In 1977, private institutions for the first time offered conventional mortgage-backed pass-through securities without the sponsorship of federal agencies. Private mortgage insurance companies provide insurance on 5% of the principal amount of the underlying mortgages. Any losses above that amount must be borne by the holders of the securities. By year-end 1979 the mortgage pools represented 12% of the total mortgage debt outstanding on one- to four-family housing and 5.2% of the mortgage debt on multifamily housing units.

Mortgage and Bond Yields

In the past, home mortgage loans typically carried a rate premium over other long-term instruments (Table 29 and Chart 17). In 1974 and 1975 this relationship was disrupted. Rates on conventional mortgages were lower than new public utility issue yields and only slightly higher than corporate Aaa bond yields.

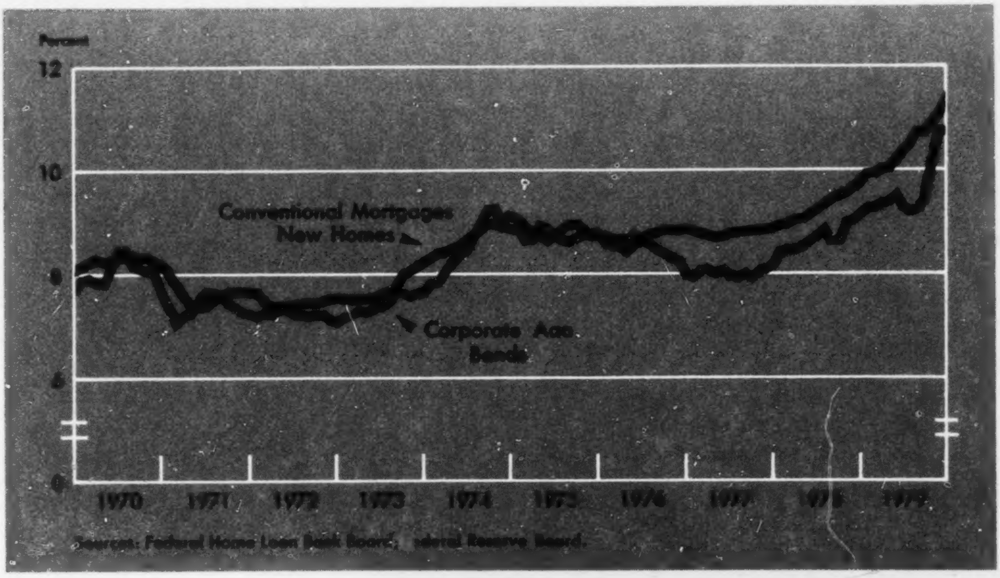
In 1976 the traditional relationship was restored, as bond rates dropped while mortgage rates stayed nearly level. At the close of 1976 the spread between the conventional mortgage rate and rates on corporate Aaa bonds was 112 basis points. The spread diminished in 1977 and 1978 but grew to 114 basis points in 1979.

TABLE 29 • Home Mortgage Interest Rates, and Yields on Corporate Bonds and New Utility Issues

Period	Conventional Loans on New Homes, Effective Interest Rate	New Aaa Utility Issues Yield	Corporate Aaa Bond Yield	Spread between Conventional Loan Rate and Utilities Yield	Spread between Conventional Loan Rate and Corporate Bond Yield
1965	5.81%	4.50%	4.49%	1.31%	1.32%
1966	6.25	5.43	5.13	0.82	1.12
1967	6.46	5.82	5.51	0.64	0.95
1968	6.97	6.50	6.18	0.47	0.79
1969	7.81	7.71	7.03	0.10	0.78
1970	8.45	8.68	8.04	—0.23	0.41
1971	7.74	7.62	7.39	0.12	0.35
1972	7.60	7.31	7.21	0.29	0.39
1973	7.95†	7.74	7.44	0.21	0.51
1974	8.92	9.33	8.57	—0.41	0.35
1975	9.01	9.40	8.83	—0.39	0.18
1976	8.99	8.48	8.43	0.51	0.56
1977	9.01	8.19	8.02	0.82	0.99
1978	9.54	8.96	8.73	0.58	0.81
1979	10.77	10.03	9.63	0.74	1.14

†New series.
Sources: Federal Home Loan Bank Board; Federal Reserve Board; Moody's Investors Service.

CHART 17 • Long-term Interest Rates



Sources: Federal Home Loan Bank Board; Federal Reserve Board.

Homeownership

WIDESPREAD HOMEOWNERSHIP is one of the distinctive characteristics of American society. In 1977, 48.8 million homes—64.8% of all residential units in the United States—were owner-occupied (Table 30 and Chart 18).

Almost half of the families in the United States owned their own homes in 1890, when homeownership had an economic base. The nation then was predominantly rural, and the household was a productive economic unit. In this context, the home was a workplace as well as a residence. But as urbanization increased, this economic tie was broken and the rate of homeownership declined slightly.

With the brief exception of the prosperous 1920s, homeownership rates declined steadily from the late 1800s to an all-time low of 43.6% in 1940. Then dramatic improvement in the American standard of living fostered a revival in homeownership. From 1940 to 1960 the rate rose from the low of 43.6% to 61.9%.

Despite the 16 million increase between 1960 and 1977 in the number of homeowners, the homeownership rate advanced less than three percentage points in that period. The sharp increase during the 1960s in the youngest and oldest household age groups was a significant factor in slowing the rate of increase in homeownership.

Ownership by Regions

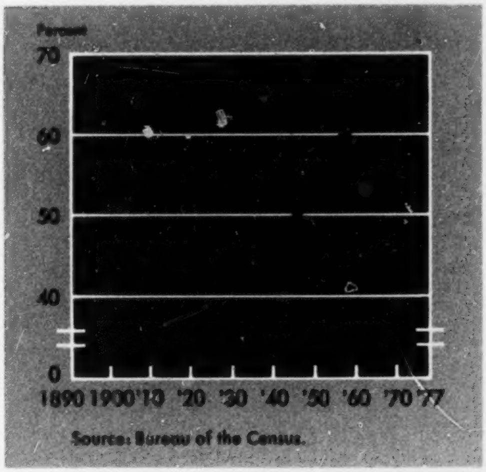
Several reports developed from the Annual Housing Survey of 1977 and the 1970 Census of Housing by the Bureau of the Census provide statistics on homeownership by region and by state. The

TABLE 30 • Homeownership, 1890-1977

Year	Occupied Units	Owner-occupied Units	Renter-occupied Units	Percentage Owned	Percentage Rented
1890	12,690,000	6,066,000	6,624,000	47.8%	52.2%
1900	15,964,000	7,455,000	8,509,000	46.7	53.3
1910	20,256,000	9,301,000	10,955,000	45.9	54.1
1920	24,352,000	11,114,000	13,238,000	45.6	54.4
1930	29,905,000	14,280,000	15,625,000	47.8	52.2
1940	34,855,000	15,196,000	19,659,000	43.6	56.4
1950	42,826,000	23,560,000	19,266,000	55.0	45.0
1960	53,024,000	32,797,000	20,227,000	61.9	38.1
1970	63,445,000	39,886,000	23,559,000	62.9	37.1
1975	72,523,000	46,867,000	25,656,000	64.6	35.4
1976	74,005,000	47,904,000	26,101,000	64.7	35.3
1977	75,280,000	48,765,000	26,515,000	64.8	35.2

Source: Bureau of the Census.

CHART 18 • Percentage of Families Owning Their Homes, 1890-1977



Source: Bureau of the Census.

North Central region had the highest rate of owner occupancy in 1977, while the Northeast had the lowest (Table 31).

In 1970, according to the decennial census, homeowners outnumbered renters in all but two states—Hawaii and New York—and the District of Columbia. The owner-occupancy rate was 47% for both states, and a low 28% for the nation's capital. States with the highest homeownership rates were Michigan with 74%; Indiana and Iowa with 72%; Minnesota with 71%; and Idaho, Maine and South Dakota with 70%.

California led in the number of owner-occupied units, while at the other end of the scale, New York had the largest number of rented units.

Black Homeownership

The 1977 Housing Survey revealed that homeownership among blacks is much more extensive than many people might have believed: 3.5 million blacks, or 43.6%, owned the homes they occupied.

Since 1960 the increase in the percentage of home-owning blacks has outpaced that of the nation. Nationwide, the increase was from 61.9% to 64.8%, while for blacks, ownership rates moved from 38.4% to 43.6%. The homeownership rate among blacks was highest in the South, at 48.9%, and lowest in the Northeast, where it was 29.7%. The ownership rates for the North Central and Western regions were 43.8% and 42.2%, respectively.

Reasons for Homeownership

The high rate of homeownership represents a response to many social, historical, demographic and economic forces, some of which are uniquely American. Many immigrants came from countries where land ownership was denied to all but a select few. These individuals arrived in this country with a strong desire to hold title to land and home.

Homeownership has been treated preferentially in many of our laws, from the Constitution and common law to the foreclosure statutes which protect property owners.

On the economic side, rising income levels and the development of long-term mortgage credit have made homeownership possible for a broad segment of the population. The tax deductible status of interest paid on mortgage loans has provided an incentive to homeownership. And for many, homeownership has been the best available hedge against inflation.

The meaning of homeownership has changed over the years. Although the home has kept its traditional values of security, shelter, pride of ownership, independence and privacy, a new set of attitudes toward the ownership of a home has

TABLE 31 • Homeownership, by Regions, 1977

Region	Occupied Units	Owner-occupied Units	Renter-occupied Units	Percentage Owned	Percentage Rented
Northeast	16,638,000	9,860,000	6,778,000	59.3%	40.7%
North Central	19,856,000	13,764,000	6,092,000	69.3	30.7
South	24,378,000	16,297,000	8,081,000	66.9	33.1
West	14,408,000	8,844,000	5,564,000	61.4	38.6
Entire United States	75,280,000	48,765,000	26,515,000	64.8%	35.2%

Source: Bureau of the Census.

become increasingly evident.

A survey conducted by the United States League of Savings Associations several years ago found that the dominant motives for homeownership were noneconomic.

Of every 100 reasons given, 62 were noneconomic and related to the family's social and personal needs. Among these reasons were the desire to provide a better environment for the children, privacy, freedom to improve the property and the need for more space.

Home Buyers

Much press coverage on home buying and homeownership revolves around the ideas of the average American, average income, the average cost of a home and the ability of an average family to afford a home. In reality, the concept of an average home buyer is terribly misleading.

The U.S. League of Savings Associations completed a study of homeownership in 1979 and found enormous variety among recent home buyers. Families with all levels of incomes can and do buy homes in this country. The study found that nearly 22% of all home buyers during the 1979 survey period had total annual household incomes of less than $20,000, while another 18% had incomes between $20,000 and $25,000. Only 16% had household incomes of $45,000 or more.

Most home buyers also are young. In the survey, 59% of the buyers were between the ages of 25 and 39, and a surprisingly large 10% of all home buyers surveyed were less than 24 years old.

Most home buyers are married, but single people are not excluded from the market. Of the 14,000 conventional savings and loan mortgages included in the U.S. League survey, 22% financed home purchases by single persons (6% of these were two single individuals buying a home together). Most home buyers had small households; only 11% had five or more people in their household.

Many home buyers rely on secondary incomes. Among the home buyers surveyed, 54% had more than one wage earner. Households with a secondary earner contributing 30% to 50% of the total income represented about one-third of all home-buying households. One-fourth of all home buyers had net worth under $25,000. For most buyers, the home itself was the major household asset.

First-time home buyers are generally quite different from repurchasers. As might be expected, first-time home buyers tend to be younger than repeat home purchasers, and they are more likely to be single. Secondary income is relatively more important for first-time buyers. Repurchasers tend to have larger households. Of all repurchasers surveyed, 33% had four or more members in their households, compared to 15% for first-time buyers.

Home buyers have adjusted to the increasing costs of mortgage loans and all homeowners have been forced to accommodate increased homeownership costs. Many households have depended upon secondary incomes and delayed childbearing in order to become homeowners. But homeownership is a reality for a widely diverse population in this country, and the concept of an average American cannot adequately describe today's home buyer.

New Ownership Patterns

Homeownership usually is identified with a single-family house. However, several relatively new kinds of housing extend ownership of a unit in a multifamily dwelling to the individual or family that occupies it.

The more widely used and older arrangement is the cooperative apartment. Under this type of ownership the apartment dweller owns shares in a nonprofit corporation which holds title to the building, and he has a long-term proprietary lease on his individual unit of space. The real estate taxes and operating costs are prorated among the owners, and the cooperative, as a corporate entity, makes all disbursements and assessments. The transfer of a unit to a new owner is accomplished by a transfer of the former owner's shares in the cooperative corporation and the writing of a new long-term lease.

A newer type of unit ownership in a multifamily structure is the condominium. Under this arrangement the apartment dweller holds direct legal title to the unit in which he lives and a proportionate interest in the common areas and the underlying ground. Ownership rights in an individual unit are the same as in a single-family dwelling. Rules and regulations governing the property are set forth in the deed and are binding upon the owner of a condominium unit.

The Real Estate Market

MOST STUDIES OF THE real estate market focus mainly on newly constructed homes, with little attention given to the stock of existing homes, an important factor in the nation's housing. Information about sales activity in both the new and existing home markets is now provided by the National Association of Realtors.

In this chapter, the term "new homes" refers to developer-built units that were not contracted for by a purchaser before construction began (speculatively built homes). "Existing homes" includes all previously occupied single-family units.

Existing Home Sales

The Realtors' survey shows that sales of existing homes in 1979 fell below the record levels set in 1978. A total of 3.7 million units was sold last year, compared to 3.9 million in 1978 (Table 32).

The decline in the sales of existing homes, occasioned by the 1973-75 recession, bottomed out in January 1975 at a seasonally adjusted annual rate of 2 million units (Chart 19). Sales activity then began increasing rapidly.

By the closing months of 1978 the sales volume of existing homes had climbed to boom levels of more than 4.1 million units on a seasonally adjusted annual basis.

With a severe winter and growing economic uncertainty, however, sales dropped in 1979; only in September did the annual rate exceed 4 million.

Although sales activity declined in 1979, the rise in home prices ensured a record dollar volume in the single-family resale market. During the year, $240.2 billion changed hands in the sales of existing single-family homes, according to the National Association of Realtors' report (Table 33). This was a 10.8% increase over the 1978 level.

The average price of existing homes rose by 15.3% to $64,000 in 1979. Price increases for the year were moderated, however, by actual declines in the average price during the second half of the year. In July the average price reached an all-time high of $66,700, although this average had eased back to $65,200 by December (Chart 20).

The average price rose 18.5% in the West, 14.8% in the South, 13.9% in the Northeast and 12.9% in the North Central region.

TABLE 32 • Number of One-family Homes Sold
(Thousands)

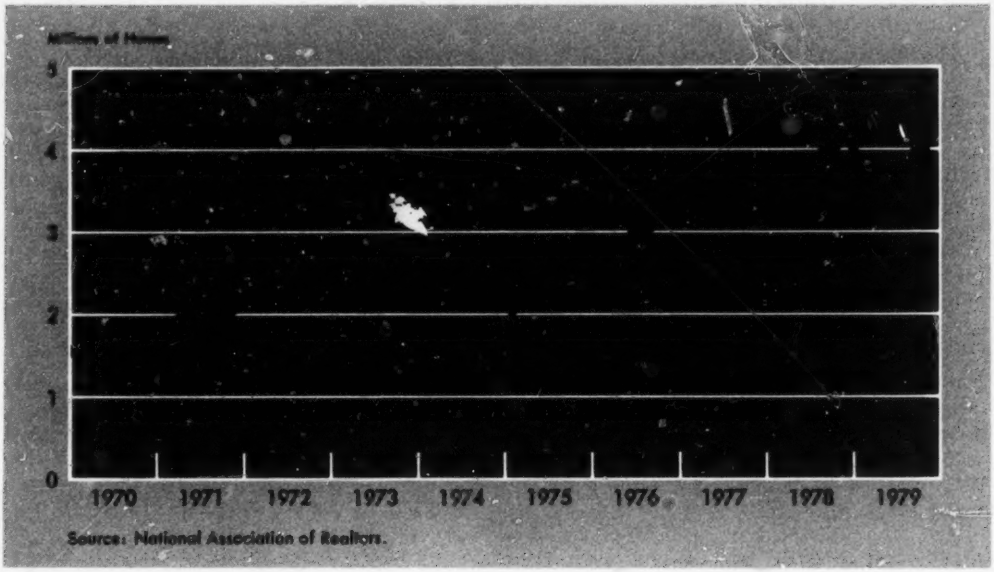
Year	New Homes	Existing Homes	Total Homes
1968	490	1,569	2,059
1969	448	1,594	2,042
1970	485	1,612	2,097
1971	656	2,018	2,674
1972	718	2,252	2,970
1973	634	2,334	2,968
1974	519	2,272	2,791
1975	549	2,452	3,001
1976	646	3,002	3,648
1977	819	3,572	4,391
1978	817	3,905	4,722
1979*	712	3,742	4,454

*Preliminary.

Sources: Bureau of the Census; National Association of Realtors.

CHART 19 • Number of Existing One-family Homes Sold

(Seasonally Adjusted Annual Rate)



Source: National Association of Realtors.

New Home Sales

New home sales in 1979 slipped below the levels of the prior two years and even below the figure for the boom year of 1972. A total of 712,000 new, speculatively built homes was sold in 1979, more than 100,000 units below the 1977 and 1978 totals, and 6,000 less than in 1972.

As in the resale market, increasing unit prices ensured that the dollar volume of new homes sold remained at record levels. The total of $51.1 billion spent buying new one-family homes in 1979 was equal to the amount spent in the prior year.

Household Formations

An important long term trend affecting the demand for homes is the rate of household formation. The more new households formed, the greater the demand for new homes, if other factors remain constant.

According to the 1970 census, new construction added 17.2 million units to the nation's housing stock between 1960 and 1970. Demand for these new units came mainly from an increase of 10.6 million in the number of households and the replacement of 6.1 million housing units lost through demolition or by means such as fire, flood or changes to other uses.

In addition to the decennial census, the Census Bureau also publishes annual population data. These figures are closely watched by those concerned about the capacity of the market to absorb a high rate of residential construction.

It is helpful to understand the statistical distinction between a family and a

TABLE 33 • Dollar Volume of One-family Homes Sold

(Billions of Dollars)

Year	New Homes†	Existing Homes	Total Homes
1968	$13.0	$ 35.0	$ 48.0
1969	12.5	37.8	50.3
1970	12.9	41.4	54.3
1971	18.6	56.5	75.1
1972	21.9	67.8	89.7
1973	22.5	76.8	99.3
1974	20.2	81.3	101.5
1975	23.4	95.6	119.0
1976	31.0	126.7	157.7
1977	44.4	171.1	215.5
1978	51.1	216.7	267.8
1979*	51.1	240.2	291.3

*Preliminary.

†Computed from number of homes sold and average sales price.

Sources: Bureau of the Census; National Association of Realtors.

household. According to the Census definition, a household consists of all the persons occupying a housing unit, as long as the occupants do not live and eat with other persons occupying other units in the structure and there is either (1) direct access from the outside or through a common hall or (2) a kitchen or cooking equipment for the exclusive use of the occupants of that housing unit.

When the members of a household are related by law or blood, they are defined by the Census Bureau as a family. A distinction between families and other households then can be made. The latter group consists of one-person households and unrelated individuals sharing living quarters.

Between 1970 and 1979 the number of households grew by 13.9 million, or roughly 15.5 million on a 10-year basis, bettering the 10.6 million and 9.2 million growth of the 1960s and 1950s, respectively.

Last year a total of 1.3 million new households was formed, down from the very high level of 1.9 million in 1978 (Table 34 and Chart 21). This total included 589,000 new families, 16.6% higher than the 505,000 family formations in 1978. However, the growth in other households of 711,000 was little more than half the 1.4 million figure of 1978.

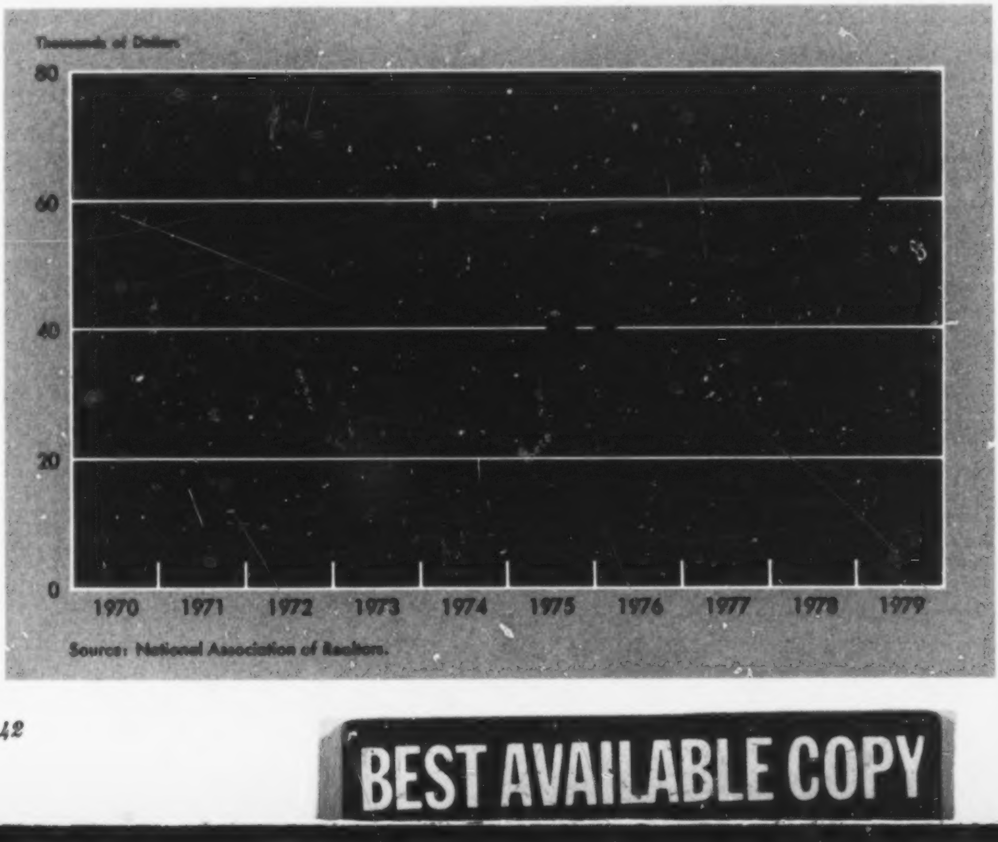
In the '60s the number of families grew 14.4%, while the number of other households expanded at the much greater rate of 53.7%. However, this segment is also very volatile, as can be seen from the data for recent years. Expansion and contraction of employment, for example, heavily affect the decision of single persons to rent an apartment of their own, share living quarters and expenses with roommates, or move from or return to the home of their parents. This mobility produces a volatility in occupancy and vacancy rates.

Since younger unmarried people generally rent and older unmarried people either rent apartments or purchase smaller homes, the fluctuation in the formation rate of households other than families greatly affects the demand for apartments and smaller homes.

A Caveat on Formations

It should be noted that data on housing starts and household formations do not cover comparable periods of time. Hous-

CHART 20 • Average Price of Existing One-family Homes Sold



Source: National Association of Realtors.

ing starts data are given for a calendar year, while household formation figures cover a period from March to March.

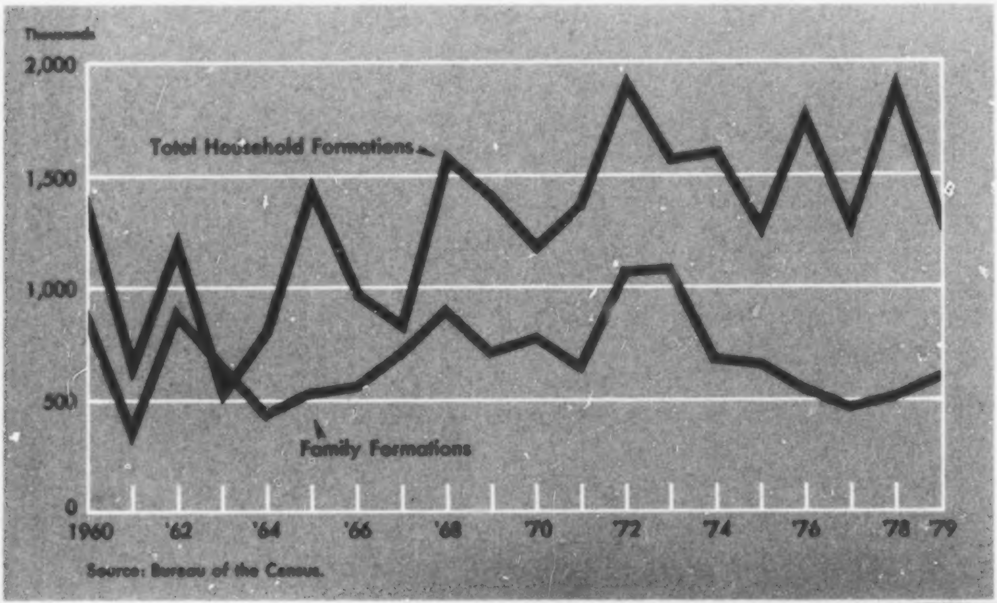
More significantly, the number of available housing units affects household formations. The availability of units at

TABLE 34 • Number of Families and Households

	Total (Thousands)			Annual Change (Thousands)		
Year	All Households	Families	Other Households	All Households	Families	Other Households
1950	43,554	39,303	4,251	1,372	679	693
1955	47,874	41,951	5,923	895	749	146
1960	52,799	45,111	7,688	1,364	879	485
1965	57,436	47,956	9,480	1,287	416	871
1966	58,406	48,509	9,897	970	553	417
1967	59,236	49,214	10,022	830	705	125
1968	60,813	50,111	10,702	1,577	897	680
1969	62,214	50,823	11,391	1,401	712	689
1970	63,401	51,586	11,815	1,187	763	424
1971	64,778	52,227	12,551	1,377	641	736
1972	66,676	53,296	13,380	1,898	1,069	829
1973	68,251	54,373	13,878	1,575	1,077	498
1974	69,859	55,053	14,806	1,608	680	928
1975	71,120	55,712	15,408	1,261	659	602
1976	72,867	56,245	16,622	1,747	533	1,214
1977	74,142	56,710	17,432	1,275	465	810
1978	76,030	57,215	18,815	1,888	505	1,383
1979	77,330	57,804	19,526	1,300	589	711

Note: Components may not add to totals due to rounding.
Source: Bureau of the Census.

CHART 21 • Household and Family Formations, 1960-1979



Source: Bureau of the Census.

reasonable rentals may encourage the creation of households; for example, young people may elect to rent their own apartments. Conversely, a shortage of units can be a real factor in constraining household formations. People who normally would have options about their living arrangements cannot exercise them. Newlyweds may double up with relatives or friends, causing two families to show up in the Bureau of the Census data as one household.

Foreclosure Data

The health of the housing market can be determined from a number of sources besides demographic data and sales figures. One traditional measure—the real estate foreclosure series published by the Federal Home Loan Bank Board—was discontinued in early 1976. Data on the foreclosure experience of savings and loan associations still are available, however, and are discussed in the chapter on mortgage lending.

Inventory of Unsold Homes

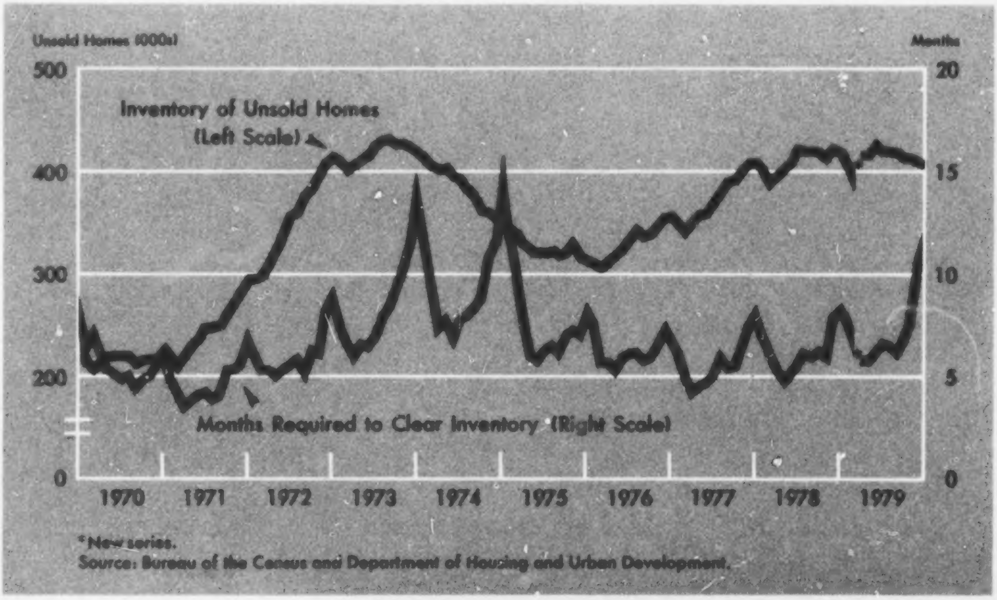
A series published jointly by the Department of Housing and Urban Development and the Bureau of the Census contains statistics on the number of unsold new single-family homes. The stock of unsold new homes includes units in all stages of construction. A diversified set of data reveals the stage of construction at which the home is sold, the state of the inventory of unsold homes and price ranges.

Inventory conditions in the market for new single-family homes are revealingly summarized by the monthly ratio of the number of homes for sale to the number of homes sold, often referred to as the number of months required to clear the inventory.

The data series covering both the inventory of unsold homes and the number of months required to clear the inventory have a break in continuity in March 1979, when the sample used for both series was expanded to include more houses. While the new series will give a more accurate picture of the state of the housing inventory, the discontinuity in reporting makes it difficult to compare 1979 with prior years.

In December 1979 the inventory of unsold houses stood at 405,000 units (Chart 22). At the rate of sales then prevailing, it would have taken 11.8 months to clear the inventory. This was more than double the 5.7 months required in March and

CHART 22 • Inventory of Unsold Speculatively Built One-family Homes and Number of Months Required to Clear Inventory



*New series.
Source: Bureau of the Census and Department of Housing and Urban Development.

April 1979, the first months in which the newly enlarged sample was used.

Apartment Absorption Rates

Many indicators point to an easing of the problems in the multifamily sector which had been caused by overbuilding in the early 1970s. One such indicator is the quarterly series on apartment absorption rates published by the Census Bureau, which reports the percentage of units rented within three months after completion, for a range of new apartments.

In the second quarter of 1979, the latest period for which data are available, 84% of all new apartments were rented within three months after completion, the second highest level in the present decade (Table 35). The absorption rate has not dipped below 75% since mid-1975.

Vacancy Data

The quarterly report of the Census Bureau on vacancies differs from the preceding two reports in that it includes data on existing as well as newly built units. Although the averages are helpful, one should also keep in mind the fact that rental and homeowner units built within the last 10 years tend to have vacancy rates higher than the averages.

The decline in the vacancy rate for rental units since 1974 is undoubtedly a result of the reduced production of new multifamily units. The rental vacancy rate of 5% for the last two years is the lowest point reached in a downward trend which began in the mid-1960s (Table 36 and Chart 23).

The vacancy rate for homeowner units remained constant at 1.1% in 1979.

TABLE 35 • Apartment Absorption Rates

	Percentage Rented Within Three Months									
Period	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
1st Q.	69%	68%	61%	64%	67%	61%	79%	77%	79%	83%
2nd Q.	74	69	73	74	73	72	86	83	84	84
3rd Q.	77	72	69	76	72	75	79	83	83	
4th Q.	65	62	67	63	60	75	78	78	81	

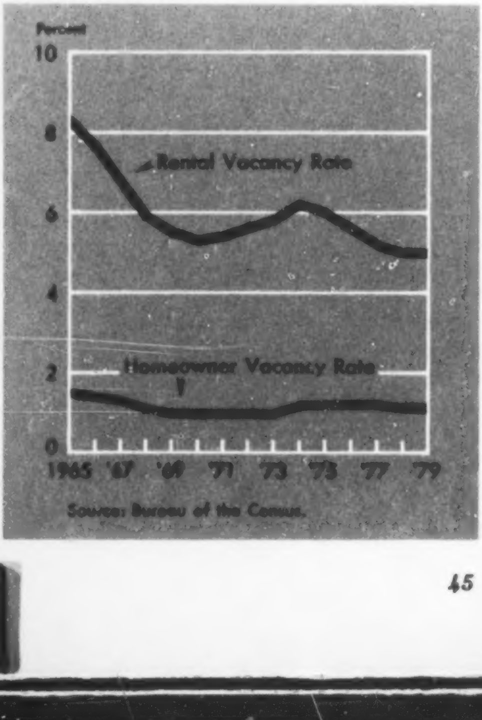
Source: Bureau of the Census.

TABLE 36 • Rental and Homeowner Vacancy Rates

Year	Rental Units	Homeowner Units
1960	8.1%	1.3%
1965	8.3	1.5
1966	7.7	1.4
1967	6.8	1.3
1968	5.9	1.1
1969	5.5	1.0
1970	5.3	1.0
1971	5.4	1.0
1972	5.6	1.0
1973	5.8	1.0
1974	6.2	1.2
1975	6.0	1.2
1976	5.6	1.2
1977	5.2	1.2
1978	5.0	1.1
1979	5.0	1.1

Source: Bureau of the Census.

CHART 23 • Rental and Homeowner Vacancy Rates



Source: Bureau of the Census.

THE SAVINGS AND LOAN BUSINESS

Function and Structure

SAVINGS AND LOAN ASSOCIATIONS serve as a link between people who have funds to invest and those who want to borrow. Associations accept savings deposits from the public, then use these funds to make loans in the institution's own name. The association assumes the loan risk and collects interest from its borrowers. It pays out the major portion of this interest to savers as a return on their deposits.

Associations are specialized but extremely important members of a class of institutions known as financial intermediaries. This classification includes such diverse organizations as commercial banks, life insurance companies, credit unions, mutual savings banks, and finance and investment companies. As a group, they offer investors a wide variety of financial options and make funds available to borrowers for a broad range of purposes.

Savings and loan associations are private institutions, and the development of policy for the conduct of business at the individual association is the responsibility of a board of directors made up of local citizens. Like many financial intermediaries, however, associations work within a framework of special state and federal laws and regulations.

The laws set standards for the chartering of new associations, govern operating practices and control the kinds of loans and other investments that can be made,

TABLE 37 • Total Assets of Financial Intermediaries at Year-end

(Billions of Dollars)

Financial Intermediary	1950	1955	1960	1965	1970	1975	1979*
Commercial Banks	$168.9	$210.7	$257.6	$377.3	$ 576.2	$ 964.9	$1,480.3
Savings Associations	16.9	37.7	71.5	129.6	176.2	338.2	579.3
Life Insurance Companies	64.0	90.4	119.6	158.9	207.3	289.3	431.0
Mutual Savings Banks	22.4	31.3	40.6	58.2	79.0	121.1	163.4
Finance Companies	9.3	18.3	27.6	44.7	64.0	97.7	168.9
Investment Companies	3.3	7.8	17.0	35.2	47.6	42.2	49.5
Credit Unions	1.0	2.7	5.7	10.6	18.0	38.0	65.9
Private Pension Funds	7.1	18.3	38.1	73.6	110.4	146.8	236.8
State and Local Pension Funds	4.9	10.8	19.7	34.1	60.3	104.8	178.9
Total	$297.8	$428.0	$597.4	$922.2	$1,339.0	$2,143.0	$3,354.0

*Preliminary.

Sources: CUNA International, Inc.; Federal Home Loan Bank Board; Federal Reserve Board; Institute of Life Insurance; National Association of Mutual Savings Banks; U.S. League of Savings Associations.

while supervisory agency regulations set operating standards and guidelines.

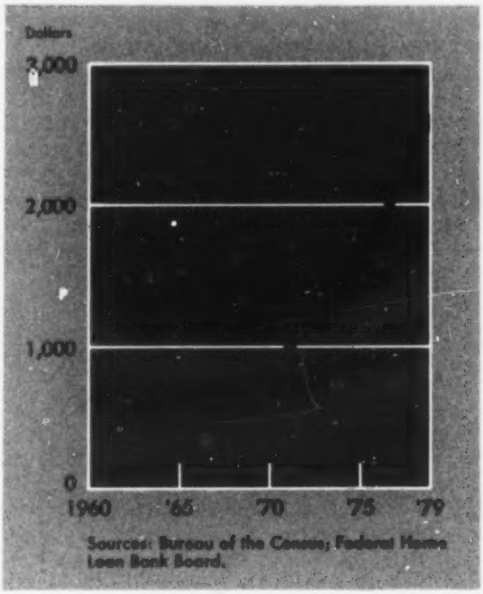
Laws and regulations, as well as economic forces, have had a strong influence on the development of the savings and loan business, and help to shape it today.

Associations as Intermediaries

Savings associations are the second largest type of financial intermediary in the nation, with assets at year-end 1979 of $579.3 billion (Table 37). They are outranked only by commercial banks, whose assets totaled $1,480 billion at the end of last year. Other major intermediaries are life insurance companies, with $431 billion in assets; pension funds, with $236.8 billion; and mutual savings banks, with $163.4 billion.

At year-end 1979, associations had 90.1 million savings accounts with an average balance of $5,219. These deposits provided the resources which allowed associations to hold 16 million mortgage loans with an average balance of $29,786. In functioning as intermediaries, associations held more than five deposit accounts for every loan account.

CHART 25 • Per Capita Assets of Savings Associations



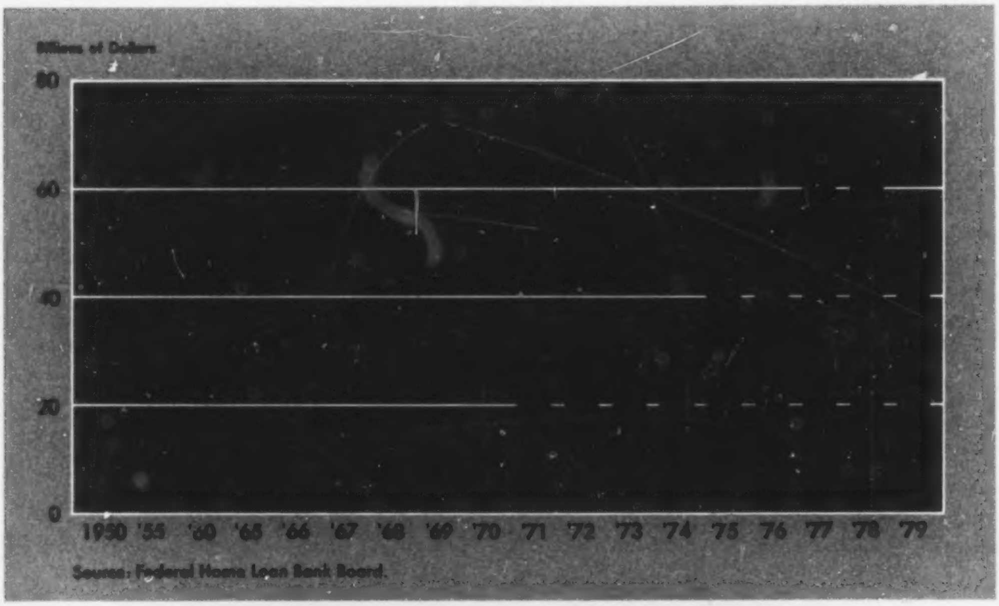
Sources: Bureau of the Census; Federal Home Loan Bank Board.

Asset Growth

In 1979 the total assets of associations grew 10.7%, compared to 7.2% for commercial banks, 3.3% for mutual savings banks, 10.5% for life insurance companies and 5.6% for credit unions.

Over a longer period of time, associa-

CHART 24 • Annual Increase in Total Assets of Savings Associations



Source: Federal Home Loan Bank Board.

tions have shown a similar strong growth pattern. Since 1950 their assets have increased 34-fold, a greater growth rate than that of any other major financial intermediary except credit unions.

Although the total assets of savings associations have expanded rapidly, the growth has not been steady (Chart 24). Through the 1950s and into the 1960s, the annual increase in association assets grew almost every year. In the mid-1960s, however, this trend collapsed, and a period of relative stagnation began. It was not until 1970 that the year's increase in assets matched the gains of the early 1960s. In the 1970s, annual increases in association assets have been very large but quite variable.

The slowdown in savings association growth during the middle and late 1960s was caused by a number of factors. Most important were greater competition from commercial banks and recurrent outflows of funds into direct capital market investments. These factors also helped to produce the sharp reduction in asset growth in 1973 and 1974.

Another way to measure savings and loan association growth is to relate assets to population. Per capita assets of the business were $2,591 at year-end 1979, compared with $394 in 1960 (Chart 25).

Association Census

At the end of 1979 there were 4,709 savings and loan associations in the United States (Table 38).

Savings and loan offices are found in every state of the Union, the District of Columbia, Puerto Rico and Guam (Table 39). Ohio led the nation with 399 associations, followed by Pennsylvania with 387 and Illinois with 381. These three states, plus Texas, New Jersey, Maryland, North Carolina and California, accounted for almost half of all savings and loan associations.

Data on the number of savings and loan charters do not indicate the number of full-time operating institutions. Approximately 200 associations, although they are legal entities, are relatively inactive as financial organizations. They are frequently intended to provide limited savings and mortgage lending services to small fraternal or nationality groups.

TABLE 38 • Number of Savings Associations, by Type of Charter

Year-end	Federally Chartered[†]	State-chartered Total	State-chartered FSLIC-insured	State-chartered Noninsured[‡]	Grand Total
1950	1,526	4,466	1,334	3,132	5,992
1955	1,683	4,388	1,861	2,527	6,071
1960	1,873	4,447	2,225	2,222	6,320
1965	2,011	4,174	2,497	1,677	6,185
1966	2,051	4,061	2,459	1,602	6,112
1967	2,056	3,980	2,431	1,549	6,036
1968	2,063	3,884	2,407	1,477	5,947
1969	2,071	3,764	2,367	1,397	5,835
1970	2,067	3,602	2,298	1,304	5,669
1971	2,049	3,425	2,222	1,203	5,474
1972	2,044	3,254	2,147	1,107	5,298
1973	2,040	3,130	2,123	1,007	5,170
1974	2,060	2,963	2,081	882	5,023
1975	2,048	2,883	2,030	853	4,931
1976	2,019	2,802	2,025	777	4,821
1977	2,012	2,749	2,053	696	4,761
1978	2,000	2,725	2,053	672	4,725
1979[*]	1,989	2,720	2,050	670	4,709

[*] Preliminary.

[†] All federally chartered associations are insured by the Federal Savings and Loan Insurance Corporation.

[‡] Includes institutions insured by the Co-operative Central Bank of Massachusetts, the Maryland Savings-Share Insurance Corporation, the North Carolina Savings Guaranty Corporation and the Ohio Deposit Guarantee Fund.

Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

Geographic Distribution of Assets

Savings association development has not been uniform throughout the country. Differences have been caused by many factors, including variations in population and income growth, degree of urbanization, the policies and practices of competing financial institutions, and the early position of strength gained by associations in some areas.

On December 31, 1979, the six leading states in terms of savings and loan assets accounted for 50.9% of the total for all associations (Table 40). California led the nation with 19%. The Pacific states held the largest regional concentration of total assets, followed closely by the East North Central states.

Forty-three states plus the District of Columbia and Puerto Rico reported savings and loan assets of more than $1 billion. Sixteen states had assets totaling between $5 billion and $10 billion, while 14 had more than $10 billion.

In terms of per capita assets, Florida led with $5,260 at year-end 1979 (Table 39). It was followed by California with $4,844 and Hawaii with $4,106. The District of Columbia, an unusual situation, had $7,406 in assets for every resident.

State and Federal Associations

Like the commercial banking system, the savings and loan business has a dual system of chartering and supervision. State associations are chartered under state statutes, and are supervised and examined by their respective banking or savings and loan departments. Federal associations are chartered under the provisions of the Home Owners' Loan Act of 1933 and are subject to the supervision

TABLE 39 • Savings Associations and Assets, by State, December 31, 1979*

State	Number of Associations	Total Assets (Millions)	Per Capita Assets
Alabama	62	$ 4,688	$1,244
Alaska	5	297	732
Arizona	16	5,869	2,396
Arkansas	77	4,203	1,928
California	179	109,931	4,844
Colorado	46	8,918	3,217
Connecticut	38	4,081	1,310
Delaware	18	277	476
District of Columbia	16	4,858	7,406
Florida	122	46,602	5,260
Georgia	98	10,285	2,010
Guam	2	75	649
Hawaii	9	3,757	4,106
Idaho	12	997	1,101
Illinois	381	42,600	3,794
Indiana	163	9,908	1,835
Iowa	77	6,833	2,355
Kansas	82	6,825	2,881
Kentucky	105	5,569	1,579
Louisiana	127	7,682	1,912
Maine	20	663	604
Maryland	204	9,896	2,386
Massachusetts	162	7,919	1,373
Michigan	65	16,925	1,838
Minnesota	57	10,031	2,471
Mississippi	59	2,716	1,118
Missouri	115	15,097	3,102
Montana	15	$ 1,074	$1,367
Nebraska	41	5,041	3,202
Nevada	8	2,204	3,139
New Hampshire	17	1,058	1,193
New Jersey	217	22,427	3,059
New Mexico	33	2,347	1,891
New York	122	26,630	1,509
North Carolina	201	11,188	1,996
North Dakota	11	2,230	3,395
Ohio	399	37,857	3,528
Oklahoma	54	5,413	1,872
Oregon	31	6,640	2,628
Pennsylvania	387	23,247	1,982
Puerto Rico	12	1,861	547
Rhode Island	6	761	819
South Carolina	75	5,956	2,031
South Dakota	19	1,033	1,500
Tennessee	98	6,904	1,576
Texas	312	31,468	2,352
Utah	14	3,959	2,896
Vermont	7	242	492
Virginia	85	8,859	1,705
Washington	48	9,233	2,352
West Virginia	35	1,467	781
Wisconsin	114	11,950	2,532
Wyoming	13	871	1,934
Entire U.S.	4,709	$579,307	$2,591

Note: Components do not add to totals because of differences in reporting dates and accounting systems.
*Preliminary.
Sources: Bureau of the Census; Federal Home Loan Bank Board; U.S. League of Savings Associations.

of the Federal Home Loan Bank Board.

As of December 31, 1979, there were 2,720 state-chartered associations, 57.8% of the total. They had assets of $256.2 billion (Table 41). Another 1,989 associations, 42.2% of the total, operated under federal charter and held $323.1 billion in assets. The distribution of assets between federal and state associations was 55.8% and 44.2%, respectively (Chart 26).

The growing complexity of savings and loan operations, the intense competition for savings that has characterized recent years and a shortage of trained personnel have caused a decline in the number of associations.

The attrition has occurred mainly among state-chartered institutions, whose number has fallen by 1,727 since 1960. Voluntary liquidations, mergers and conversions to federal charter have contributed to the decline.

Although the number of savings and loan associations with state charters has decreased, their assets have grown sharply—rising nearly eight-fold since 1960.

TABLE 40 • Leading Areas in Savings and Loan Assets

(Dollar Amounts in Millions)

Area	Total Assets Year-end 1979*	Percentage Distribution
Leading States:		
California	$109,931	19.0%
Florida	46,602	8.0
Illinois	42,600	7.4
Ohio	37,857	6.5
Texas	31,468	5.4
New York	26,630	4.6
Above States	$295,088	50.9%
All Other States	284,219	49.1
Entire U.S.	$579,307	100.0%
Leading Regions:		
Pacific	$129,858	22.4%
East North Central	119,240	20.6
South Atlantic	99,389	17.2
Middle Atlantic	72,400	12.5
South Central	68,644	11.8
Above Regions	$489,531	84.5%
All Other Regions	89,776	15.5
Entire U.S.	$579,307	100.0%

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: U.S. League of Savings Associations.

Insured Associations

Federal associations are required by law to have their savings accounts insured by the FSLIC. Insurance of accounts is optional for many state-chartered institutions, but the majority afford their savers this protection. To obtain FSLIC insurance, an association must have full-time management and separate quarters—objective criteria of a viable organization.

The number of associations with savings accounts insured by the Federal Savings and Loan Insurance Corporation grew from 1934 to 1966, when insured associations reached a high of 4,510. The number declined in most years since then, dropping to 4,039 by 1979. Insured associations held 98.1% of the combined assets of the savings and loan business at year-end 1979.

In addition to the FSLIC, insuring organizations have been set up under special statutes in four states. The oldest of these, the Co-operative Central Bank of Massachusetts, insures the accounts in its state savings and loan institutions, which are known as co-operative banks. In 1979 this 47-year-old organization covered the savings accounts in 133 co-operative banks.

The Ohio Deposit Guarantee Fund, established in 1957, insured the savings accounts in 85 associations in its state as of December 31, 1979. The Maryland Savings-Share Insurance Corporation, which first began operations in 1962, covered the accounts in 132 savings and loan associations in the state of Maryland last year. The North Carolina Savings Guaranty Corporation, established in 1967, insured the accounts of 57 associations in its state at year-end 1979.

These four state funds were authorized by their respective state legislatures, have duties and powers set forth by their state laws, and answer to public officials and supervisory authorities.

Association Ownership

Savings and loan associations are either mutually owned or have some form of permanent stock ownership. Mutual associations issue no capital stock. They are owned by their members—the savers and borrowers—who are entitled to vote on association affairs. Stock associations, in contrast, issue capital stock which is similar to that of any other corporation. It can be bought and sold by investors, confers voting rights and may earn dividends.

One important operational distinction between stock and mutual associations is that in the stock form additional capital shares can be sold in order to expand net worth, while under mutual ownership the only significant source of funds for this purpose is after-tax income. This difference can be important in times of rapid savings growth, when regulations usually require large additions to net worth.

Until recently, only state-chartered associations were allowed to operate under the stock form of organization. In the last few years, however, the FHLBB has authorized a number of conversions of federal associations to stock form.

At the end of 1979, 3,904 associations were mutual institutions and 805 were of the capital stock type. Assets of mutual institutions totaled $431.8 billion; those of stock-type savings and loan associations, $147.5 billion (Table 42).

The number of stock associations peaked at 799 in 1965, with assets of $27.6 billion. The number of these associations then declined, but since 1973 has been on the increase again and last year reached a new peak. Their assets have continued to grow steadily over the period. California has remained the leader, with $71.9 billion in assets; it accounted for 48.7% of all stock association resources last year.

Nationwide, stock associations represented 17.1% of all associations and held 25.5% of the aggregate assets of the savings and loan business at the end of 1979.

Size of Associations

The average association at the end of 1979 had assets of $123 million, up $12.2 million from 1978 and $95.2 million from 10 years ago (Table 43 and Chart 27). The increases reflect both a decline in the number of associations and a tremendous rise in the total assets of the business.

Most savings associations are of moderate size. At the close of 1979, 2,678 associations, or 56.9% of the total number, had assets of at least $10 million but less than $100 million (Table 44). Associations smaller than this numbered 831, or

TABLE 41 • Assets of Savings Associations, by Type of Charter

(Millions of Dollars)

Year-end	Federally Chartered†	State-chartered			Grand Total
		Total	FSLIC-insured	Noninsured‡	
1950	$ 8,457	$ 8,436	$ 5,234	$ 3,202	$ 16,893
1955	20,035	17,621	14,163	3,458	37,656
1960	38,511	32,965	28,919	4,046	71,476
1965	66,715	62,865	57,861	5,004	129,580
1966	69,581	64,352	59,464	4,888	133,933
1967	75,279	68,255	63,210	5,045	143,534
1968	81,077	71,813	66,659	5,154	152,890
1969	87,302	74,847	69,486	5,361	162,149
1970	96,259	79,924	74,386	5,538	176,183
1971	114,229	91,794	85,755	6,039	206,023
1972	135,925	107,202	100,424	6,778	243,127
1973	152,240	119,665	112,557	7,108	271,905
1974	167,671	127,874	120,552	7,322	295,545
1975	195,410	142,823	134,849	7,974	338,233
1976	225,763	166,144	157,409	8,735	391,907
1977	261,920	197,321	188,078	9,243	459,241
1978	298,195	225,347	215,115	10,232	523,542
1979*	323,058	256,249	245,049	11,200	579,307

*Preliminary.

†All federally chartered associations are insured by the Federal Savings and Loan Insurance Corporation.

‡Includes the assets of institutions insured by the Co-operative Central Bank of Massachusetts, the Maryland Savings-Share Insurance Corporation, the North Carolina Savings Guaranty Corporation and the Ohio Deposit Guarantee Fund.

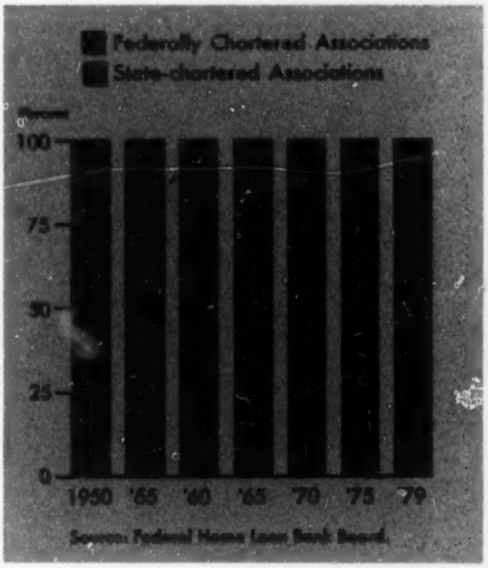
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

17.6%, while the over-$100 million class included 1,200 institutions, or 25.5%.

The smallest associations, whose large number indicates the importance of the services they provide, nevertheless hold a disproportionately tiny fraction of the total assets of the savings and loan business. On December 31, 1979, associations of size less than $10 million held $3.3 billion in assets, only 0.6% of the total. The major share of savings and loan funds are accounted for by institutions with more than $100 million in assets. At year-end 1979 they held $459.9 billion, 79.4% of the total.

At the close of 1979 there were $28.7 million in assets for every savings and loan operating site, including main and

CHART 26 • Assets of Federal and State Savings Associations



Source: Federal Home Loan Bank Board.

TABLE 43 • Average Assets and Population per Association Office

Year-end	Assets (Millions) Per Assn.	Assets (Millions) Per Office†	Population Per Assn.	Population Per Office†
1950	$ 2.8	‡	25,530	‡
1955	6.2	$ 5.6	27,463	24,989
1960	11.3	9.0	28,739	22,901
1965	21.0	14.1	31,471	21,206
1966	21.9	14.4	32,166	21,099
1967	23.8	15.3	32,899	21,141
1968	25.7	15.9	33,714	20,855
1969	27.8	16.6	34,742	20,743
1970	31.1	17.6	36,189	20,542
1971	37.6	19.7	37,887	19,875
1972	45.9	21.8	39,475	18,758
1973	52.6	22.3	40,753	17,261
1974	58.8	21.4	42,255	15,382
1975	68.6	21.9	43,391	13,849
1976	81.3	23.4	44,710	12,885
1977	96.5	25.7	45,600	12,173
1978	110.8	27.6	46,349	11,785
1979*	123.0	28.7	47,487	11,070

*Preliminary.
†Main and branch.
‡Not available.
Sources: Bureau of the Census; Federal Home Loan Bank Board; United States League of Savings Associations.

TABLE 42 • Permanent Stock Savings and Loan Associations

(Dollar Amounts in Millions)

State	December 31, 1978 Number of Associations	December 31, 1978 Total Assets	December 31, 1978 Permanent Stock	December 31, 1978 Reserves, Surplus, Undivided Profits	December 31, 1979† Number of Associations	December 31, 1979† Total Assets	December 31, 1979† Permanent Stock	December 31, 1979† Reserves, Surplus, Undivided Profits
California .	90	$ 61,894	$304	$3,570	102	$ 71,852	$ 379	$4,037
Texas	218	17,968	136	738	211	20,686	137	870
Ohio	91	12,404	29	615	90	13,603	30	686
Illinois	67	4,864	33	155	67	6,071	46	205
Other States	314	27,648	379	940	335	35,324	468	1,297
Total	780	$124,778	$881	$6,018	805	$147,536	$1,060	$7,095

†Data partially estimated.
Source: State supervisory reports.

branch offices (Table 43). Each operating site served 11,070 people. There were 47,487 persons for each savings association in the United States.

Merger Activity

Until the mid-1960s, mergers of savings associations played only a minor role in altering the structure of the business. In the six years from 1960 through 1965, 164 mergers of Federal Home Loan Bank System member associations took place.

Then the number of mergers began to grow, peaking at 132 during 1974 (Table 45). The number of mergers began to decline in 1975, however, and last year totaled only 37.

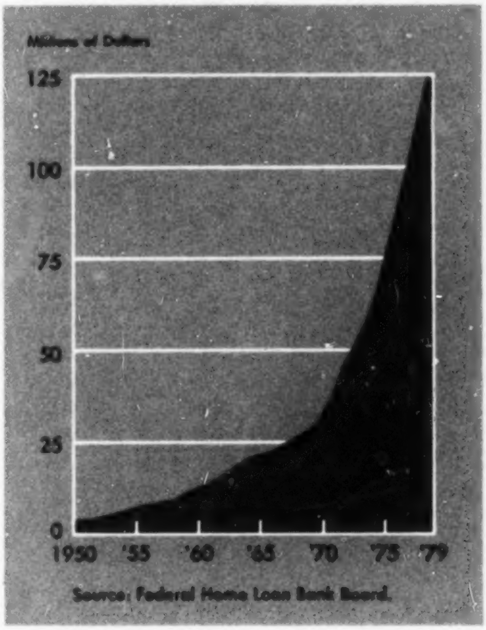
Several factors combined to increase merger activity during the late '60s and early '70s. The cost-earnings squeeze in tight money years led some institutions to seek economies of scale and the various operating advantages that result from larger size. The earnings squeeze also made the acquisition of an operating savings association a desirable alternative to the expense of starting up a new branch. Also, the merger of an institution in financial difficulty with a stronger one has been the method favored by the FSLIC for protecting the interests of savers.

The recovery in savings flows that got under way in late 1974, combined with a strong mortgage market and a recovery in association earnings, has blunted the force of the merger movement since 1974.

Branching Activity

In the last several years many savings associations have expanded their operations by opening branch offices, extending services to new locations and increasing customer convenience. Branching activity was particularly vigorous for a period

CHART 27 • Average Assets of Savings Associations



Source: Federal Home Loan Bank Board.

TABLE 44 • Distribution of Savings Associations, by Asset Size, December 31, 1979

Asset Size (Millions)	Number of Associations	Percentage of Total	Assets (Millions)	Percentage of Total
Under $1	234	5.0%	$ 108	†
$ 1 and under $ 5 ...	279	5.9	790	0.1%
$ 5 and under $ 10 ...	318	6.8	2,447	0.4
$ 10 and under $ 25 ...	851	18.1	15,225	2.6
$ 25 and under $ 50 ...	957	20.3	36,466	6.3
$ 50 and under $ 100 ...	870	18.5	64,414	11.1
$ 100 and under $ 150 ...	406	8.6	51,814	8.9
$ 150 and under $ 250 ...	347	7.4	69,402	12.0
$ 250 and under $ 500 ...	250	5.3	85,525	14.8
$ 500 and under $1,000 ...	113	2.4	78,580	13.6
$1,000 and over	84	1.8	174,536	30.1
Total	4,709	100.0%	$579,307	100.0%

Note: Components may not add to totals due to rounding.
†Less than 0.05%.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

after the FHLBB issued a highly favorable policy statement in 1973. It now appears to be tapering off, perhaps due to market saturation (Chart 28).

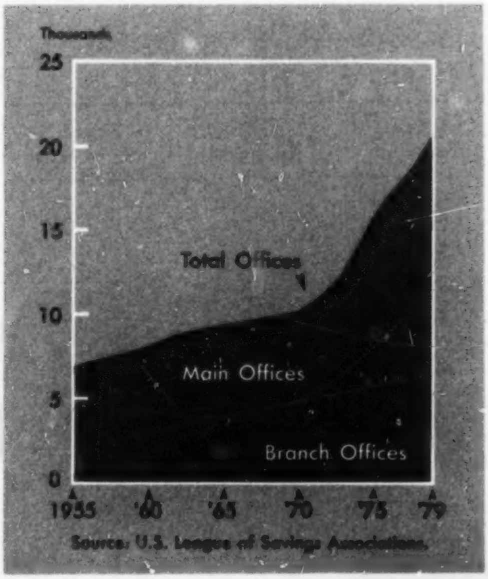
Associations' branches vary widely in size and purpose, from full-service outlets to mobile facilities that serve several communities on a once- or twice-a-week basis. The FHLBB has introduced several new branching options in recent years, including mobile facilities for federals in 1967, and the limited facility and satellite office concepts in 1972. These innovations were designed to give associations added flexibility in meeting community demands for services.

TABLE 45 • Mergers of FHLB Member Associations

Year	State-chartered	Federally Chartered	Total
1960	13	10	23
1965	18	14	32
1966	30	12	42
1967	42	22	64
1968	36	11	47
1969	72	24	96
1970	80	38	118
1971	70	62	132
1972	38	69	107
1973	48	76	124
1974	50	82	132
1975	52	59	111
1976	31	54	85
1977	27	17	44
1978	26	18	44
1979	20	17	37

Source: Federal Home Loan Bank Board.

CHART 28 • Number of Savings Association Offices



Source: U.S. League of Savings Associations.

Limited facility branches allow associations to serve smaller communities where the volume of business does not justify offering a full range of association services.

Satellite offices are essentially mini-branches serving the customers of an existing office. They may be located within a business, shopping center, commuter station or some other ready-made site, or in independent quarters.

At the close of 1979 there were 15,492 branch offices (Table 46 and Chart 28). The 4,709 main offices brought the total number of operating sites to 20,201. More than half of all branches were those of federal savings associations. Branches are most common in the state of California, where there were 2,479 savings association branch offices at the end of 1979.

TABLE 46 • Number of Savings Association Offices

Year-end	Number of Associations	Number of Branches	Number of Offices
1955	6,071	601	6,672
1960	6,320	1,611	7,931
1965	6,185	2,994	9,179
1966	6,112	3,206	9,318
1967	6,036	3,357	9,393
1968	5,947	3,667	9,614
1969	5,835	3,938	9,773
1970	5,669	4,318	9,987
1971	5,474	4,961	10,435
1972	5,298	5,851	11,149
1973	5,170	7,036	12,206
1974	5,023	8,775	13,798
1975	4,931	10,518	15,449
1976	4,821	11,908	16,729
1977	4,761	13,087	17,848
1978	4,725	14,250	18,975
1979*	4,709	15,492	20,201

*Preliminary.
Sources: Federal Home Loan Bank Board; U.S. League of Savings Associations.

Savings Growth and Flows

DURING THE 1970S, no other aspect of the savings and loan business has shown such dramatic change as the structure of its savings accounts. In a decade marked by intense bouts of high inflation and high interest rates, it became increasingly difficult for savings associations to attract and hold the savings of the nation's households. The increased volatility of savings flows into and out of associations has contributed much to the "boom or bust" nature of the housing industry.

Recent savings instrument innovations have led to what is, in effect, a complete restructuring of the composition of savings deposits at associations. During the entire decade, however, no other single initiative had such a fundamental impact on the business as did the creation in mid-1978 of a new and distinctly different savings instrument for the nation's depository institutions—the money market certificate.

Money Market Certificates

In attempts to stabilize the deposit base of financial institutions before 1978, the emphasis was on lengthening the maturity structure of accounts by offering longer term certificates.

In May 1978, however, in response to market pressures that had slowed savings gains, the Federal Reserve Board and the Federal Home Loan Bank Board shifted their position and jointly authorized a new short-term, flexible certificate. Known as a money market certificate (MMC), this instrument carries an interest rate on each new weekly issue that is tied to short-term money market rates. The MMC was designed to stem the outflow of funds developing at depository institutions and to attract new funds. It offers savers an attractive alternative to short-term open market investments.

On June 1, 1978, commercial banks, mutual savings banks and savings associations began offering the new money market savings certificates. The MMC is a short-term savings instrument requiring a minimum deposit of $10,000 with a fixed maturity of 182 days. Contrary to some impressions, the MMC is not a floating rate certificate. It is a fixed-rate instrument, but the maximum allowable interest rate that may be paid on new certificates is subject to change each week.

This maximum rate is based upon the average yield on U.S. government six-month Treasury bills in the most recent weekly auction. Typically the auctions are held on Monday, the auction results are published in the financial press on Tuesday and the T-bills are issued on Thursday. Each week the new MMC interest rate ceiling becomes effective on the issue date of the T-bills, based upon the auction three days earlier.

For commercial banks the MMC interest rate ceiling is equal to the average auction yield, on a discount basis, for the six-month Treasury bills. Originally, savings associations and mutual savings banks were allowed to pay 0.25% more than the T-bill rate. As explained later in this section, however, this provision was modified in early 1979.

Savings Shifts

Beginning with the first offerings in 1978, savers quickly moved their funds into money market certificates, and the account structure of associations began a rapid change. Twice a year the Federal Home Loan Bank Board publishes a detailed analysis of deposits at insured savings associations, which provides insight into the changing structure of the business. The report covering the period from April to September 1979 was the latest available at this writing.

Compared to prior years, the changes from April to September in 1978 and 1979 reveal a significant shift in the deposit account structure, resulting from high interest rates and the availability of MMCs. For these months in 1977, for instance, all types of accounts showed net increases, although certificate accounts gained more than three times as much as passbooks.

The experience of 1978 and 1979 contrasted sharply with that pattern, as passbooks, notice accounts and lower yield certificates suffered net losses, while high-yield CDs and MMCs showed large increases (Table 47). On balance, net gains for that period in 1979 were 73.8% of the gains for 1978, with all of last year's gains coming from high-yield certificates and MMCs.

A look at aggregate account totals on a quarter-by-quarter basis provides a further perspective on savings flows and shifting savings account structures at associations.

In the first and fourth quarters of 1979,

TABLE 47 • Savings Deposits at Insured Associations, by Type of Account

(Millions of Dollars)

Type of Account	September 30, 1979		April to September Net Change	
	Amount	Percentage	1978	1979
Passbook	$126,324	27.9%	$— 4,191	$— 3,876
90-day Notice	4,863	1.1	— 809	— 817
MMC	101,911	22.5	19,337	28,697
Four-year Market Rate Certificate	1,292	0.3	—	1,292
Other Certificates of less than $100,000:				
7.5% or less	131,647	29.0	— 8,654	—19,026
More than 7.5%	64,137	14.1	12,468	2,147
Subtotal	$430,174	94.9%	$ 18,151	$ 8,417
$100,000-minimum Certificate	23,123	5.1	2,817	7,063
Total Savings	$453,297	100.0%	$ 20,968	$ 15,480

Note: Data are based on reports from associations holding substantially all FSLIC-insured savings.
Source: Federal Home Loan Bank Board.

TABLE 48 • Quarterly Change in Savings Deposits at Insured Associations, by Type of Account, 1979

(Millions of Dollars)

Type of Account	Net Change				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Entire Year
Passbook	$— 4,407	$— 489	$— 3,615	$— 9,703	$—18,214
Certificate and 90-day Notice	—12,157	— 8,677	— 7,361	—13,201	—41,396
MMC	30,434	13,376	15,324	25,386	84,520
$100,000-minimum Certificate	1,754	3,397	3,504	4,935	13,590
Total Change in Savings	$ 15,624	$ 7,607	$ 7,852	$ 7,417	$ 38,500

Source: Federal Home Loan Bank Board.

passbooks and certificates with balances of less than $100,000 suffered substantial losses, while MMCs posted huge gains (Table 48).

In the second and third quarters the pattern of gains and losses was the same, although the magnitudes involved were smaller. The decline in the balances in passbook accounts was unchecked by an increase in the passbook rate ceiling in July from 5.25% to 5.50%. Across the year the net effect was a significant reduction in total passbook and smaller certificate balances, which was more than offset by gains in large certificates and a very large growth in MMC balances.

At the end of June 1978, when MMCs had been offered for only one month, a total of $5.4 billion had been deposited in the new instrument at all savings and loan associations (Table 49). By the end of 1978, associations held $42.8 billion in MMC accounts. This represented 10.1% of their total savings balances (Chart 29).

The year 1979 opened with a huge $15.5 billion growth in MMCs in January, followed by increases of more than 10% in both February and March.

As interest rates remained high into the new year, the growing proportion of expensive MMCs in the deposit base pushed up the average cost of funds to associations, seriously squeezing the spread between liability and asset portfolios.

Accordingly, the regulatory agencies changed certain aspects of the MMC authorization, effective March 15, 1979. The new regulations prohibit compounding interest on these accounts, whereas before, MMC interest could be computed in any manner approved for certificate accounts generally.

Furthermore, the differential of ¼ of 1% originally afforded savings associations and savings banks was eliminated for all nominal rates—that is, the six-month Treasury bill auction rate—above 9%. The full differential was preserved for nominal rates of 8.75% or less, and a differential equal to the difference between

TABLE 49 • Money Market Certificate Balances and Interest Rates at Insured Savings Associations

(Dollar Amounts in Millions)

Month	MMCs Outstanding	MMC Increase		MMC Balances as a Percentage of Total Savings	Maximum Average Interest Rate Payable†
		Amount	Percentage		
1978:					
June	$ 5,400	$ 5,400	...	1.35%	7.85%
July	11,790	6,390	118.3%	2.92	8.14
August	15,080	3,290	27.9	3.72	8.02
September	19,338	4,258	28.2	4.70	8.67
October	27,390	8,052	41.6	6.61	9.27
November	36,040	8,650	31.6	8.65	10.06
December	42,780	6,740	18.7	10.13	10.28
1979:					
January	58,260	15,480	36.2	13.65	10.39
February	64,640	6,380	11.0	15.05	10.22
March	73,214	8,574	13.3	16.72	10.06
April	80,000	6,786	9.3	18.32	9.89
May	83,470	3,470	4.3	19.03	9.93
June	86,590	3,120	3.7	19.44	9.49
July	91,420	4,830	5.6	20.43	9.60
August	95,560	4,140	4.5	21.30	9.84
September	101,914	6,354	6.6	22.48	10.56
October	116,110	14,196	13.9	25.51	11.87
November	123,240	7,130	6.1	27.01	12.42
December	127,300	4,060	3.3	27.63	12.41

---

†Continuous compounding until March 15, 1979; annual yield on a 182/360 day basis since then.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

the nominal rate and 9% was allowed for the interval between 8.75% and 9%.

As a result of these measures, the growth in MMC balances slowed somewhat in the ensuing six months. From April through September, these balances grew at an average rate of 5.7% per month. A surge in interest rates in October, brought on by Federal Reserve policies designed to restrict money and credit growth, attracted a huge $14.2 billion increase in MMCs in that month. This was followed by much lower gains in November and December.

By the end of 1979 the nation's savings associations held $127.3 billion in MMCs, 27.6% of total savings. Although the MMC had been in existence for only a year and a half at year-end 1979, total balances already exceeded the total in passbook accounts by $10.8 billion. Another indication of the central role of the MMC is the fact that the $84.5 billion increase in MMCs in 1979 was more than double the $38.5 billion increase during the year in total savings at insured associations.

Market Rate Certificates

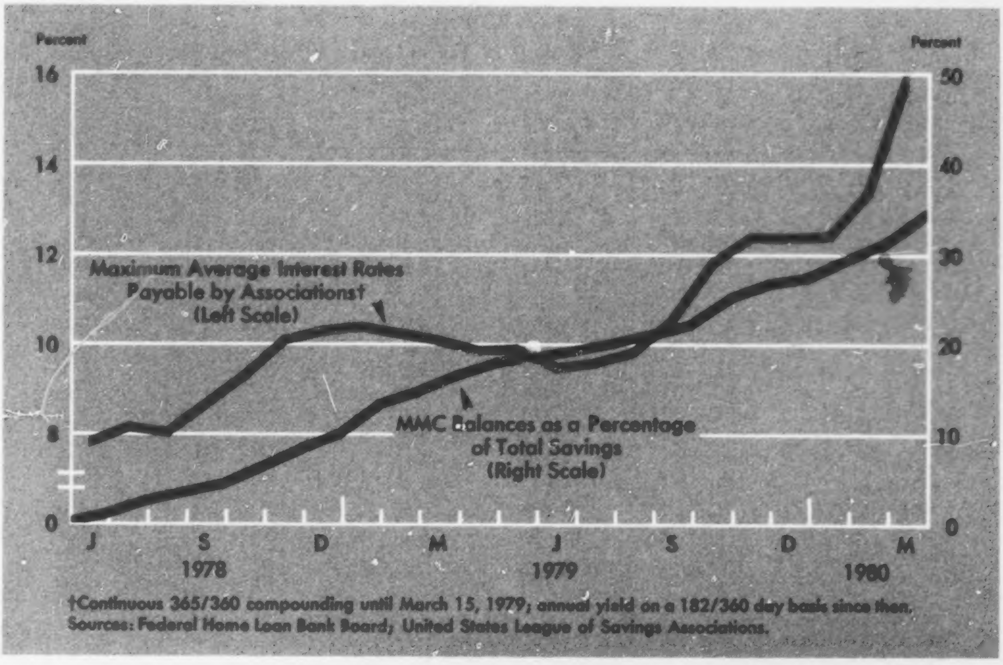
The return of double-digit inflation in 1979 and the widespread popularity of the high-yield $10,000-minimum six-month MMC led to demands that similar high-yield instruments be made available to savers with small accounts. In response to this demand the financial regulatory agencies issued new savings account regulations in May. Among the measures adopted was the authorization of a new four-year market rate certificate which financial institutions could begin issuing on July 1.

Unlike the six-month MMC, there was no minimum deposit required for the new certificate. The maximum interest rate at thrift institutions was set at 1% below an average four-year composite rate for U.S. Treasury securities. The ceiling for commercial banks was 1.25% below the Treasury rate index. The rates on new certificates were subject to change monthly but, once opened, the rate on a particular certificate remained set for the four-year term.

The four-year market rate certificate did not prove very successful; effective January 1, 1980, it was replaced with a similar instrument with a 30-month maturity. On both certificates, compounding of interest is permitted.

The maximum rate on the new certificate at thrift institutions was set at ½ of

CHART 29 • MMC Interest Rates and Balances at Savings Associations



†Continuous 365/360 compounding until March 15, 1979; annual yield on a 182/360 day basis since then.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

1% below the average yield on 30-month U.S. Treasury securities. The maximum rate at commercial banks was ¾ of 1% below the Treasury security rate.

In January and February of 1980 the ceiling on these certificates at thrift institutions was 10.40% and 10.65%, respectively. Then interest rates on 30-month Treasury securities increased sharply in February; this would have meant a March ceiling of 13.5% for thrift institutions and 13.25% for banks.

The regulatory agencies felt that a sudden increase of this magnitude would be disruptive to many financial institutions. Accordingly, they imposed a 12% cap on the rate at thrift institutions and an 11.75% cap at banks, effective March 1. These caps apply whenever Treasury security rates exceed 12.5%; at lower rates the variable ceiling formula still applies.

The 30-month certificates are proving to be more popular with depositors than the four-year certificate was. At the end of March 1980, savings and loan associations held $7.3 billion in this new type of savings instrument.

Regulatory Rates on Savings

Until the passage of the Interest Rate Adjustment Act in 1966, the return paid on savings by associations had never been controlled by law or regulation. On several earlier occasions, however, the Federal Home Loan Bank Board did employ moral suasion and other, stronger means to control rates.

The 1966 legislation gave the FHLB Board explicit power to fix the maximum rate that may be paid on different types of savings accounts. Until this time only commercial banks were subject to savings rate controls, a precedent established in 1933, during the depths of the depression.

A very significant increase in rate ceilings occurred in July of 1973, when the Federal Reserve Board took the initiative and the FHLBB followed suit. Fearing sizable deposit outflows to money market instruments from associations and banks as a result of quickly rising short-term rates, they acted to make financial institutions more competitive with the open market.

The change completely recast interest rate ceilings for the savings and loan business. It also significantly altered the competitive position between associations and commercial banks. The new regulations narrowed the differential between bank and savings association rate ceilings from ½ of 1% to ¼ of 1%.

In its December 1975 extension of rate controls, Congress for the first time formally recognized the differential. It also prohibited the regulatory agencies from eliminating the differential on then-existing types of accounts without express congressional consent.

In the Depository Institutions Deregulation and Monetary Control Act, passed in March 1980, Congress enacted a plan intended to eliminate savings interest ceilings eventually.

The act extended rate ceilings and the ¼ of 1% differential for six years. It also transferred the power to set rate ceilings from the individual regulatory agencies to an interagency committee.

Any changes in the rate ceilings must be approved by a majority vote of this committee, consisting of the chairmen of the Federal Home Loan Bank Board, Federal Reserve Board, Federal Deposit Insurance Corporation and National Credit Union Administration, and the secretary of the Treasury, with the comptroller of the currency as a nonvoting member.

Congress set noncompulsory targets for rate increases over six years. These consist of a ¼ of 1% increase in the passbook rate ceiling during the first 18 months after enactment, and ½ of 1% increases in the ceilings on all types of accounts during the third, fourth, fifth and sixth years. However, the committee has full discretion to move ceilings up or down as warranted by economic conditions, although they are not to be increased above market rates.

The rate ceilings in effect for associations on January 1, 1980, are shown in Table 50.

Types of Savings Accounts

During the 1950s and much of the 1960s the passbook account was the major savings instrument issued by savings and loan associations. Any amount may be added to or withdrawn from a passbook account at any time.

By early 1970, changes in regulations and practices had made it possible for an association to issue a wide assortment of types of accounts differing in the maximum interest rate that may be paid, the term over which the account must be held and the minimum balance required.

Although they are losing popularity to

higher rate accounts, passbooks are still one of the major types of savings accounts at associations.

Associations also may issue a 90-day notice account which requires the saver to provide 90 days' notice of any intention to withdraw funds but pays a higher return than the standard passbook account.

The certificate account is another major type of savings instrument issued by savings and loan associations. Certificates are issued in fixed amounts with fixed maturities, up to a maximum of 10 years. All earn a higher rate than is paid on passbook accounts. The two-year certificate, first authorized in January 1970, was followed by the creation of 30-month and four-year certificates in 1973, a six-year certificate in 1974 and an eight-year certificate in 1978.

TABLE 50 • Interest Rate Ceilings on Savings Accounts at FHLB Member Associations, January 1, 1980

Type of Account	Rate Ceiling
Passbook	5.50%
Transaction (NOW)	5.00
90-day Notice	6.00[1]
Fixed-ceiling certificate:[1]	
90 days to 1 year	6.00
1 to 2½ years	6.50
2½ to 4 years	6.75
4 to 6 years	7.50
6 to 8 years	7.75
8 or more years	8.00
Individual retirement or Keogh account with term of 3 or more years	8.00
$100,000 minimum	none
Variable-ceiling certificate:	
26-week MMC ($10,000 minimum)	[2]
2½ year (no minimum)	[3]

---

[1] Associations may pay 8% on all governmental unit 90-day notice accounts and certificate accounts with balance less than $100,000.

[2] Maximum rate as of each Thursday is tied to the average rate on a discount basis on six-month U.S. Treasury bills as determined at the immediately preceding auction.

[3] Maximum rate for each month is ½ of 1% below the average yield on 2½ year U.S. Treasury securities (as determined by the U.S. Treasury) for the five business days preceding the third business day before the end of the prior month.

Source: Federal Home Loan Bank Board.

The six-month MMC and other market-rate-indexed accounts are distinctly different types of certificates with interest rate ceilings which change periodically on new accounts.

Two relatively new types of accounts are individual retirement accounts and Keogh accounts. These are, in effect, trust accounts to provide pension funds for people who do not have employee plans open to them. Savers place a portion of their income each year in one of these accounts until they reach at least 59½ years of age. Federal income tax on the income so deposited is deferred until withdrawals are begun, presumably when the saver has retired and therefore is in a lower tax bracket.

A hybrid savings account known as a NOW (negotiable order of withdrawal) account allows check-like drafts to be drawn against the interest-bearing deposits. NOW accounts have been available in the New England states and New York for several years. In the March 1980 legislation, Congress issued nationwide authority for these transaction accounts, effective December 31, 1980.

The Savings Mix

Certificate savings accounts at savings and loan associations have undergone phenomenal growth over the last decade. In 1966 these accounts represented only 11.7% of the total deposits at insured associations (Chart 30). With the sole exception of 1968, the percentage of total deposits held in certificates has increased every year since then. By the end of 1973, depositors for the first time held more than half of their savings in certificates. At the end of last year, certificate savings accounted for 74.7% of the total deposits at insured associations.

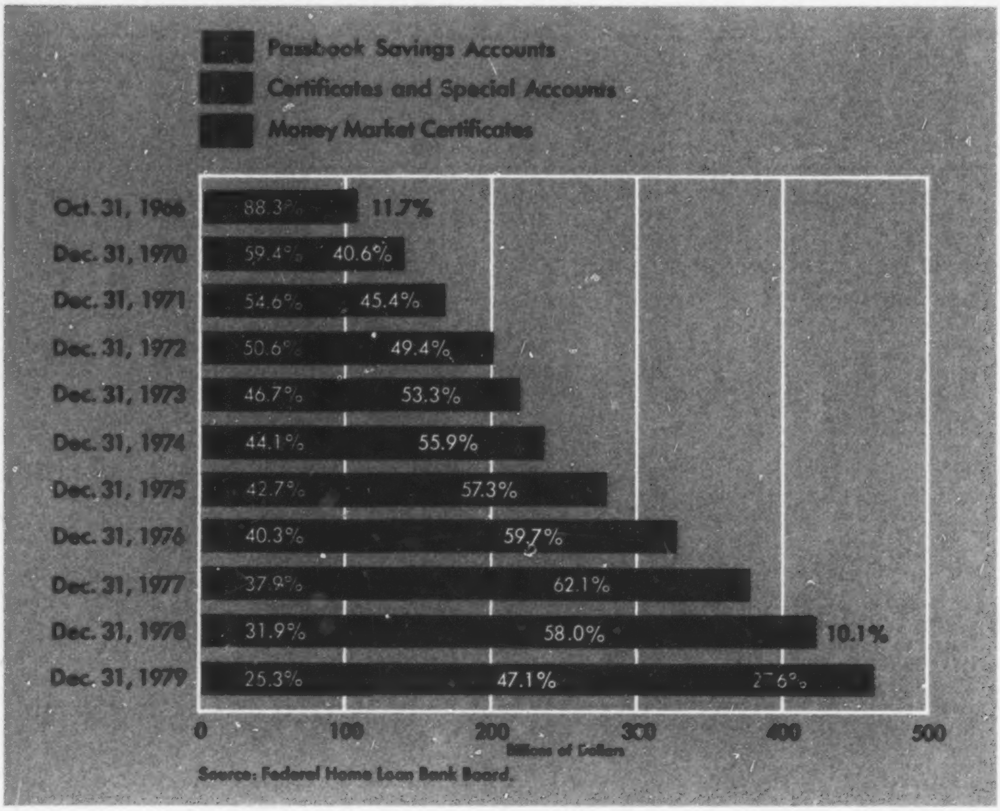
The total amount held in these accounts was $344.1 billion, a massive $56.7 billion increase over year-earlier figures. Passbook deposits totaled $116.5 billion at year-end 1979, an amount $18.2 billion below the level of a year earlier.

Gross Receipts

The readily available data on savings flows at associations have led to the development of techniques for measuring trends precisely and meaningfully.

One measure of savings activity frequently used to follow trends appears in

CHART 30 • Savings at Insured Associations, by Type of Account



Source: Federal Home Loan Bank Board.

the data on gross savings inflows. These figures include the deposits flowing into associations in the form of new accounts or additions to existing accounts during the period reported on. Interest credited to accounts is generally included in the gross receipts. When interest is not included, it is customary to identify the inflow figure as "new savings received."

The gross receipts ratio is often employed to measure long-term trends in the savings and loan business. This ratio is developed by dividing the gross receipts for a given period, such as a year or month, by total savings at the beginning of the period.

Over the years the dollar volume of gross savings receipts has climbed, rising from $5.3 billion in 1950 to $359.6 billion 29 years later (Table 51). Despite the rise in the activity at teller windows, the gross receipts ratio has not shown the same steady rise. It began a long-term downward drift in the mid-1950s, indicating that the flow of funds into savings and loan associations was declining relative to total savings (Chart 31). When interest is omitted from the receipts figure, the decline is accentuated.

This trend was broken in 1970, when the gross receipts ratio jumped from 39.8% in 1969 to 47.2% in 1970. This trend reversal has continued since then, with the ratio reaching a record high of 83.5% in 1979.

Withdrawal Demand

Because people save money in order to spend it later on, savings associations, like other financial institutions, must pay out substantial sums in the form of withdrawals.

The dollar amount of withdrawals rose substantially last year, jumping from $226 billion in 1978 to $320.2 billion in 1979.

A look at the turnover ratio gives another view of the sharp rise in withdraw-

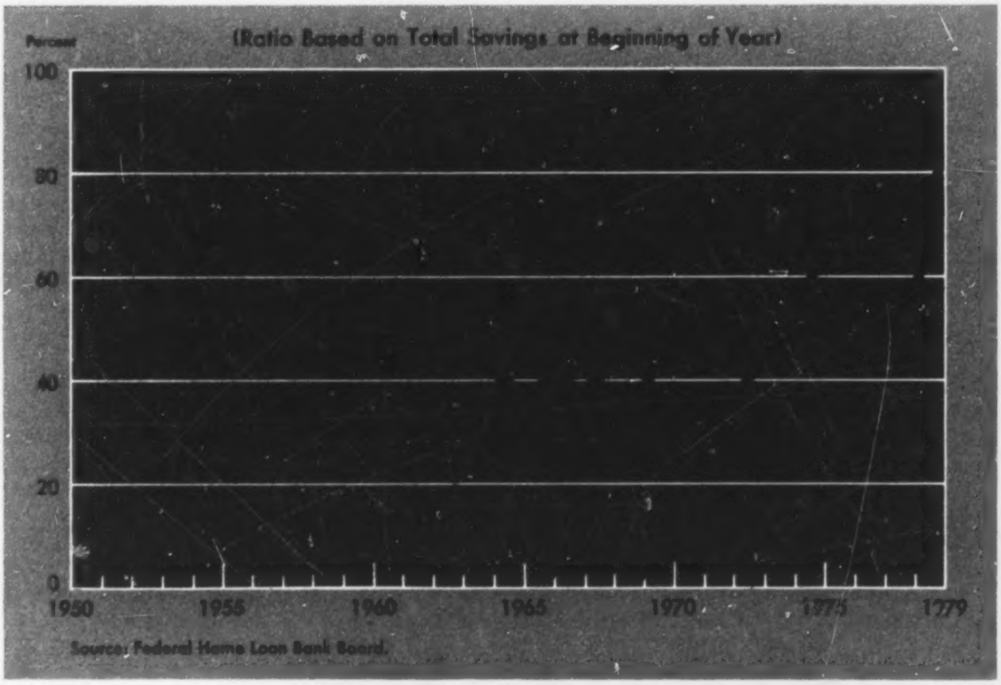
TABLE 51 • Savings Flows at All Savings Associations

(Dollar Amounts in Millions)

Year	Gross Savings Receipts	Withdrawals	Net Savings Receipts	Withdrawal Ratio	% of Savings at Start of Year: Gross Receipts Ratio	Turnover Ratio	Net Receipts Ratio
1950	$ 5,307	$ 3,820	$ 1,487	72.0%	42.6%	30.6%	11.9%
1955	13,481	8,590	4,891	63.7	49.5	31.5	17.9
1960	24,413	16,854	7,559	69.0	44.7	30.9	13.8
1965	39,218	30,705	8,513	78.3	38.5	30.1	8.4
1966	44,625	41,010	3,615	91.9	40.4	37.2	3.3
1967	47,599	36,950	10,649	77.6	41.8	32.4	9.3
1968	47,471	39,993	7,478	84.2	38.1	32.1	6.0
1969	52,381	48,302	4,079	92.2	39.8	36.7	3.1
1970	63,957	52,939	11,018	82.8	47.2	39.1	8.1
1971	77,888	49,914	27,974	64.1	53.2	34.1	19.1
1972	95,884	63,221	32,663	65.9	55.0	36.3	18.8
1973	113,212	92,975	20,237	82.1	54.8	45.0	9.8
1974	125,915	109,847	16,068	87.2	55.5	48.4	7.1
1975	154,644	111,838	42,806	72.3	63.6	46.0	17.6
1976	184,210	133,625	50,585	72.5	64.5	46.8	17.7
1977	218,250	167,234	51,016	76.6	65.0	49.8	15.2
1978	270,841	225,977	44,864	83.4	70.0	58.4	11.6
1979*	359,650	320,179	39,471	89.0	83.5	74.3	9.2

*Preliminary.
Source: Federal Home Loan Bank Board.

CHART 31 • Trends in Savings Ratios at All Savings Associations



Source: Federal Home Loan Bank Board.

als in recent years. This ratio, which measures the stability of funds in associations, is the money withdrawn in a given period expressed as a percentage of total savings at the beginning of the period. It indicates the rate at which savings moved out of the association over that period.

From the mid-1950s through the mid-1960s the savings turnover ratio remained remarkably steady, showing only a slight movement in most years. Because of this stability, the volume of withdrawals from savings accounts was fairly predictable until 1966.

In the 1966-72 period the ratio became more volatile but stayed in the 30% to 40% range. Then in 1973 it suddenly jumped to 45%. It remained in the 45% to 50% range for the next four years and then climbed to 58.4% in 1978 and to 74.3% last year.

Net Savings Gains

Since 1965, savings gains at associations have been highly volatile. The years 1971, 1972 and 1975-77 registered impressive gains in the volume of net savings received, while 1966, 1969, 1973-74 and 1978-79 showed equally striking declines. In five years of the 1970s, savings deposits grew at rates between 15.2% and 19.1%. In the other five years, however, growth ranged between 7.1% and 11.6%.

In spite of this volatility, total savings at associations have risen continually over the years, from $14 billion in 1950 to $470.2 billion in 1979, an annual compound growth of 12.9% (Table 52 and Chart 32).

Maturity Structure of Savings Accounts

Important insights into the prospective behavior of savings flows can be gained by examining the maturity distribution of savings association deposits. A preponderance of short-term accounts on the books of savings associations would imply greater susceptibility to withdrawals than would a heavy weighting of long-term certificates.

Information on the distribution by date of maturity of savings balances at insured savings and loan associations is available for the end of the first and third quarters of each year.

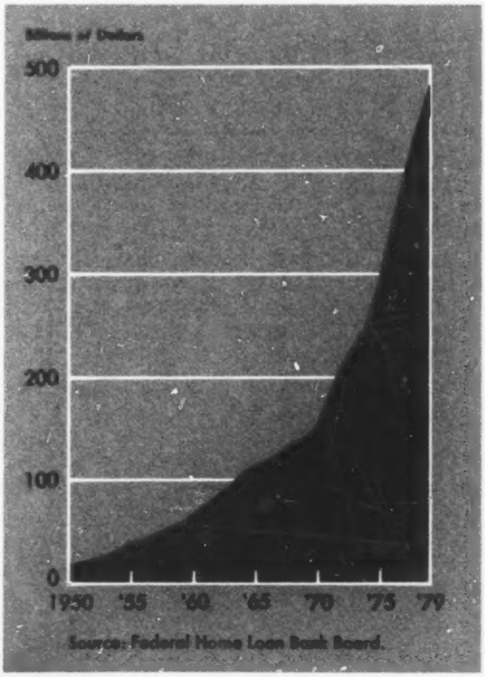
These figures first became available for

TABLE 52 • Total Savings, and Number and Size of Accounts at All Savings Associations

Year-end	Total Savings (Millions)	Number of Accounts (Thousands)	Average Size of Account
1950	$ 13,992	9,980	$1,402
1955	32,142	17,179	1,871
1960	62,142	28,743	2,162
1965	110,385	39,807	2,773
1966	113,969	42,133	2,705
1967	124,493	43,743	2,846
1968	131,618	45,060	2,921
1969	135,538	46,753	2,899
1970	146,404	48,080	3,045
1971	174,197	50,831	3,427
1972	206,764	54,483	3,795
1973	226,968	59,091	3,841
1974	242,974	63,622	3,819
1975	285,743	69,558	4,108
1976	335,912	75,622	4,442
1977	386,800	81,346	4,755
1978	430,953	86,903	4,959
1979*	470,171	90,088	5,219

*Preliminary.
Sources: Federal Home Loan Bank Board; U.S. League of Savings Associations.

CHART 32 • Total Savings at All Savings Associations



Source: Federal Home Loan Bank Board.

March 31, 1973, at which time nearly one-half of total savings were in passbook accounts (Table 53). By September 1979 this category had fallen to 27.9% of all deposits at associations.

On the other hand, certificates with more than one year to maturity went from 24.7% to 33.6% of total savings. However, this lengthening of maturities has been checked somewhat in the last two years. Between September 1977 and September 1979, passbooks fell from 38.6% to 27.9%

TABLE 53 • Maturity Structure of Savings Accounts at Insured Associations
(Dollar Amounts in Millions)

Type of Account	March 31, 1973 Amount	March 31, 1973 Percentage of Total Savings	September 30, 1979 Amount	September 30, 1979 Percentage of Total Savings
Passbook	$103,814	49.53%	$126,324	27.87%
Certificate:				
Up to 90 days to maturity	12,908	6.16	64,382	14.20
91 to 180 days to maturity	8,449	4.03	80,229	17.70
181 to 270 days to maturity	7,947	3.79	13,249	2.92
271 to 365 days to maturity	21,224	10.13	11,871	2.62
More than 1 year to maturity	51,756	24.69	152,381	33.62
Other	3,500	1.67	4,863	1.07
Total Savings	$209,598	100.00%	$453,299	100.00%

Note: Components may not add to totals due to rounding.
Source: Federal Home Loan Bank Board.

TABLE 54 • Interest Paid as a Factor in Savings Flows at All Associations
(Dollar Amounts in Millions)

Year	Total Interest Paid	Receipts Including Interest Gross	Receipts Including Interest Net	Receipts Excluding Interest Gross	Receipts Excluding Interest Net	Interest as a % of Receipts Including Interest Gross	Interest as a % of Receipts Including Interest Net
1950	$ 333	$ 5,307	$ 1,487	$ 4,974	$ 1,154	6.3%	22.4%
1955	871	13,481	4,891	12,610	4,020	6.5	17.8
1960	2,250	24,413	7,559	22,163	5,309	9.2	29.8
1965	4,486	39,218	8,513	34,732	4,027	11.4	52.7
1966	4,986	44,625	3,615	39,639	−1,371	11.2	137.9
1967	5,585	47,599	10,649	42,014	5,064	11.7	52.4
1968	6,013	47,471	7,478	41,458	1,465	12.7	80.4
1969	6,450	52,381	4,079	45,931	−2,371	12.3	158.1
1970	7,187	63,957	11,018	56,770	3,831	11.2	65.2
1971	8,604	77,888	27,974	69,284	19,370	11.0	30.8
1972	10,266	95,884	32,663	85,618	22,397	10.7	31.4
1973	12,012	113,212	20,237	101,200	8,225	10.6	59.4
1974	14,015	125,915	16,068	111,900	2,053	11.1	87.2
1975	16,420	154,644	42,806	138,224	26,386	10.6	38.4
1976	19,537	184,210	50,585	164,673	31,048	10.6	38.6
1977	23,034	218,250	51,016	195,216	27,982	10.6	45.2
1978	26,550	270,841	44,864	244,291	18,314	9.8	59.2
1979*	32,987	359,650	39,471	326,663	6,484	9.2	83.6

*Preliminary.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

of savings but certificates with remaining maturities of more than one year remained fairly constant. The big increase occurred in certificate accounts with six months to maturity. This was due, of course, to the popularity of the six-month money market certificate.

Interest Paid to Savers

In the 1960s, interest credited to savings accounts by associations grew by between $350 and $600 million each year. In 1970 the increase jumped to $737 million and the rate of increase has been accelerating since then. In 1979, associations paid $6.4 billion more in interest than in 1978 (Table 54). Total interest paid in 1979 amounted to $33 billion.

As savings growth became more volatile in the late '60s, the interest-to-net-savings ratio likewise became less stable. The two major years of disintermediation, 1966 and 1969, witnessed ratios exceeding 100%. In 1971-72 and 1975-76 the ratio dropped precipitously, registering 38.6% in 1976. It has climbed in the three years since then, to stand at 83.6% in 1979.

Table 55 shows the average interest rate on savings paid by associations during each month of 1978 and 1979. The rate is developed by expressing monthly accrued interest expense as a percentage of average savings balances for the period, then annualizing the resulting figure.

Between December 1978 and December 1979 the average climbed by a record 106 basis points. The reason for this dramatic increase is evident if certificate accounts are analyzed by interest rates (Table 56). In September 1979, certificates in denominations of less than $100,000 carrying interest rates in excess of 7.75% made up 26.3% of total savings. Only one year earlier, small certificates with rates of more than 7.75% made up a mere 3.7% of savings.

TABLE 55 • Average Interest Rate on Savings at Associations†

Month	1978	1979
January	6.50%	6.98%
February	6.48	7.02
March	6.50	7.08
April	6.50	7.16
May	6.52	7.21
June	6.53	7.23
July	6.58	7.29
August	6.61	7.34
September	6.62	7.37
October	6.69	7.54
November	6.73	7.72
December	6.82	7.88

†Based on data received from 1,100 associations regularly reporting to the U.S. League. This group holds 50% of the total savings of all associations.
Source: U.S. League of Savings Associations.

TABLE 56 • Certificate Balances at Insured Associations, by Interest Rate, September 30, 1979

(Dollar Amounts in Millions)

Type of Account	Amount	Percentage of Total Savings
MMC:		
8.50% or less	$ 407	0.09%
8.51% to 9.00%	16,078	3.55
9.01% to 9.50%	45,903	10.13
9.51% to 10.00%	27,653	6.10
More than 10.00%	11,871	2.62
Four-year Market Rate Certificate:		
7.75% or less	79	0.02
7.76% to 8.00%	895	0.20
More than 8.00%	319	0.07
Other Certificate less than $100,000:		
5.75% or less	2,400	0.53
5.76% to 6.00%	2,754	0.61
6.01% to 6.25%	356	0.08
6.26% to 6.50%	20,284	4.47
6.51% to 6.75%	11,057	2.44
6.76% to 7.00%	2,477	0.55
7.01% to 7.25%	2,468	0.54
7.26% to 7.50%	89,851	19.82
7.51% to 7.75%	48,246	10.64
7.76% to 8.00%	15,800	3.49
More than 8.00%	91	0.02
Certificate $100,000 or more:		
8.00% or less	1,523	0.34
8.01% to 9.00%	1,880	0.41
9.01% to 10.00%	3,327	0.73
10.01% to 11.00%	11,537	2.55
More than 11.00%	4,856	1.07
Total Certificates	$322,112	71.06%
Total Savings	$453,299	100.00%

Note: Components may not add to totals due to rounding.
Source: Federal Home Loan Bank Board.

Mortgage Lending

MORTGAGE LOANS CLOSED and purchased by all savings and loan associations totaled $112.8 billion in 1979, $8.7 billion below the $121.5 billion for 1978 (Chart 33).

As might be expected, mortgage loans were not closed at a particularly high rate during the winter months of January and February (Chart 34). Monthly lending volume then picked up somewhat, although only in July did it exceed year-earlier figures. By the end of the year it had again slipped back to a low level.

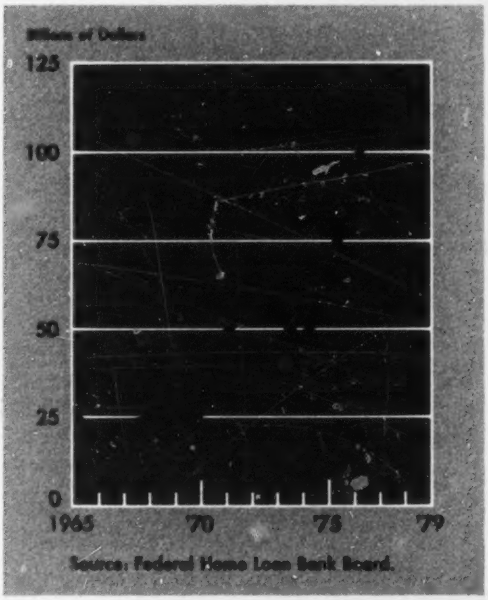
In spite of the drop-off in new loans made, savings associations still accounted for 49.9% of the increase in privately held residential mortgage debt in 1979. This support clearly emphasizes associations' specialized role as mortgage lending institutions. Association investments are limited by law, regulation and custom mainly to loans secured by residential real estate and particularly by single-family, owner-occupied homes.

All operating savings associations presently hold 82.1% of their total assets in mortgage loans. No other type of intermediary comes close to allocating this large proportion of its total assets to the financing of real estate.

Other financial institutions such as commercial banks, mutual savings banks and life insurance companies may place their resources in a wide range of financial assets, but savings and loan associations must allocate the bulk of their funds to financing housing.

Since providing adequate housing is one of America's top priorities, these facts illustrate the central position of associations in the nation's economy.

CHART 33 • Mortgage Loans Acquired by All Savings Associations



Source: Federal Home Loan Bank Board.

Total Loan Portfolio

At year-end 1979, mortgage loans on the books of all associations totaled $475.8 billion (Table 57). The combined portfolio was made up of 15,974,000 loans, with an average loan balance of $29,786.

Savings associations invest heavily in one-family homes. At year-end 1979, 78.5% of all mortgage loans held by insured associations were secured by single-family homes (Table 58). Two- to four-family structures accounted for another 4.6% of the total outstanding, while loans on apartments amounted to 7.2% of the mortgage loan portfolio. The combined holdings of one- to four-family and apartment loans brought the share of the portfolio devoted to residential financing to more than 90%.

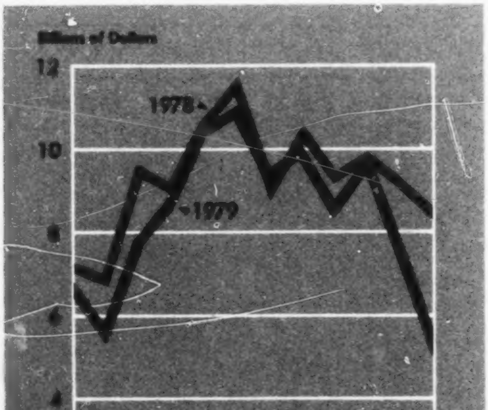
Another 8.3% was secured by first liens on other improved real estate. This classification is made up largely of loans secured by commercial properties, including stores, shopping centers and motels.

The final category, "other real estate," includes loans on developed lots and unimproved land, loans for land development, and advances to borrowers for taxes and insurance.

It should be noted that this type of detailed data, which is extremely useful in analyzing association mortgage portfolios, is available only for insured institutions. Much broader categories are used to report the holdings of all savings and loan associations.

At year-end 1979, all associations had $393.4 billion in one- to four-family home loans (Table 59 and Chart 35). Another $38.5 billion invested in multifamily mortgages brought their total allocation of funds for housing to $431.9 billion. The remaining $43.9 billion was secured by mortgages on commercial properties and farms.

CHART 34 • Mortgage Loans Made by All Savings Associations



Source: Federal Home Loan Bank Board.

Home Purchase Loans

Home purchase loans represent the major financing activity of savings and loan associations. A total of $60.7 billion of home purchase loans was made in 1979, 60.4% of all new loans closed by associations last year (Table 60).

In the allocation of their loanable funds associations have favored existing homes. The importance of this segment of the mortgage market should not be underestimated. The availability of financing strongly affects the market value and salability of existing homes.

In 1979, savings associations financed 960,000 existing homes (Table 61). These homes represented 58.2% of all the one- to four-family properties financed by associations. The remaining 41.8% represented the 690,000 new homes financed by all associations during 1979.

Construction Loans

Loans for the construction of one- to four-family homes accounted for more than 30% of all association lending during the 1950s. This share declined consider-

TABLE 57 • Mortgage Portfolio, and Number and Size of Loans at All Savings Associations

Year-end	Loans Outstanding (Millions)	Number of Loans (Thousands)	Average Loan Balance
1950	$ 13,657	3,290	$ 4,151
1955	31,408	5,459	5,753
1960	60,070	7,567	7,938
1965	110,306	9,982	11,051
1966	114,427	10,079	11,353
1967	121,805	10,311	11,813
1968	130,802	10,536	12,415
1969	140,232	10,758	13,035
1970	150,331	10,951	13,728
1971	174,250	11,483	15,175
1972	206,182	12,223	16,869
1973	231,733	12,821	18,075
1974	249,301	12,912	19,308
1975	278,590	13,446	20,719
1976	323,005	13,933	23,183
1977	381,163	14,873	25,627
1978	432,808	15,480	27,960
1979*	475,797	15,974	29,786

*Preliminary.
Sources: Federal Home Loan Bank Board; U.S. League of Savings Associations.

ably in the 1960s and has remained at a lower level in the 1970s. Last year these loans accounted for 18.5% of new loans made by all associations.

Other lenders have captured much of the construction lending business which associations financed during the 1950s. This type of short-term lending is more easily financed by institutions which have greater flexibility than do savings and loan associations.

Although home construction loans in general constitute a declining share of association lending, savings associations are still important contributors to the production of new homes. In 1979, associations advanced $18.6 billion in mortgage loans for the construction of new homes.

Other Mortgage Loans

A more detailed picture of the savings association mortgage lending mix is available in the data on insured institutions (Table 62). In 1979, loans to finance the construction and purchase of apartment buildings totaled $3.9 billion, while loans on commercial properties and other improved real estate amounted to $3.5 billion.

Consumer Loans

Nonmortgage lending by savings associations has expanded rapidly in recent years. From 1974 to 1979 the consumer loan portfolio of insured associations grew from $5.7 billion to $15 billion (Table 63). Most of these loans are closely related to residential financing and other traditional savings and loan activities.

Mobile home loans, for instance, finance an important segment of the low-cost housing market. Such loans totaled $2.2 billion in 1979 and accounted for 14.3% of the consumer loan portfolio.

Home improvement loans totaled $4.4 billion in 1979, 29.4% of the total consumer loan portfolio. In part because of the changing structure of savings deposits at associations, loans secured by savings accounts have climbed rapidly over the last two years, soaring to 40.1% of the portfolio in 1979.

Mortgage Loans Purchased

Over the years, savings associations have traditionally closed loans at their own institutions with the intent of holding them for their own portfolios. Recent growth in the size and efficiency of the secondary mortgage market, however, has increased the importance of purchases of whole loans and participating interests in blocks of loans as a method of portfolio expansion for savings associations.

Throughout most of the 1960s, purchases rose in dollar volume, but grew

TABLE 58 • Mortgage Portfolio of Insured Associations, by Type of Property
(Dollar Amounts in Billions)

Type of Property	1974	1975	1976	1977	1978	1979*
Single-family	$181.9	$202.9	$237.4	$283.2	$325.3	$367.0
Two- to Four-family	13.0	13.9	15.6	18.6	21.1	21.7
Multifamily	23.0	24.6	27.5	31.4	34.9	33.7
Commercial	21.3	25.3	29.5	32.9	35.1	38.6
Other	4.0	4.6	5.3	6.3	7.1	6.3
Total	$243.1	$271.3	$315.3	$372.4	$423.5	$467.3
Percentage Distribution						
Single-family	74.8%	74.8%	75.3%	76.0%	76.8%	78.5%
Two- to Four-family	5.3	5.1	4.9	5.0	5.0	4.6
Multifamily	9.5	9.1	8.7	8.4	8.2	7.2
Commercial	8.8	9.3	9.4	8.8	8.3	8.3
Other	1.6	1.7	1.7	1.7	1.7	1.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Components may not add to totals due to rounding.
*Preliminary.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

TABLE 59 • Mortgage Portfolio of All Associations, by Type of Property

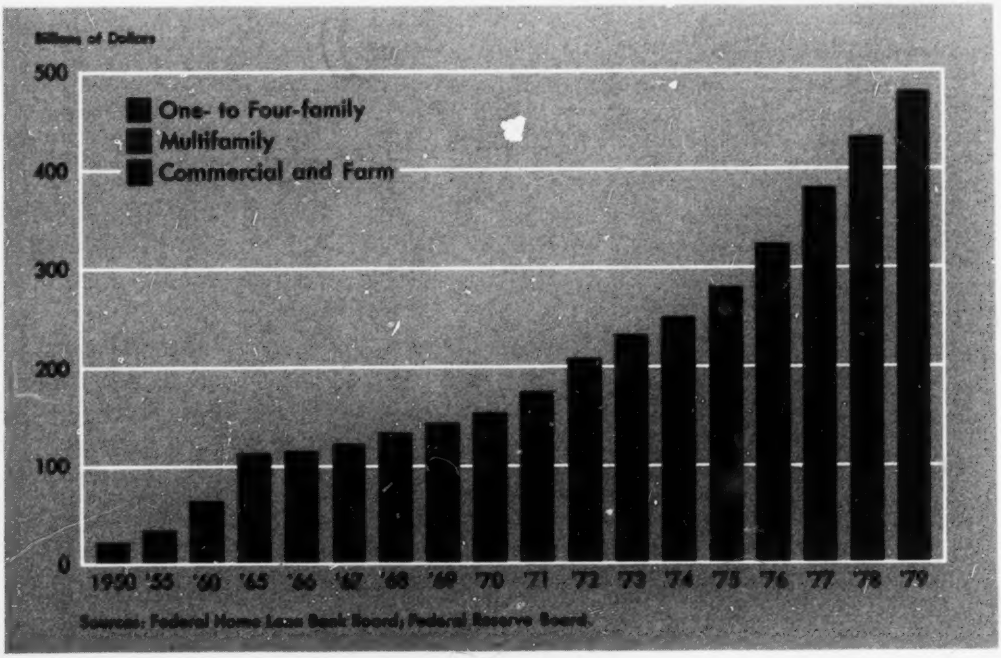
Year-end	Loans Outstanding (Millions of Dollars)† One- to Four-family Homes	Other Properties	Total	Percentage Distribution One- to Four-family Homes	Other Properties	Total
1950	$ 13,116	$ 541	$ 13,657	96.0%	4.0%	100.0%
1955	30,001	1,407	31,408	95.5	4.5	100.0
1960	55,386	4,684	60,070	92.2	7.8	100.0
1965	94,225	16,081	110,306	85.4	14.6	100.0
1966	97,398	17,029	114,427	85.1	14.9	100.0
1967	103,202	18,603	121,805	84.7	15.3	100.0
1968	110,075	20,727	130,802	84.2	15.8	100.0
1969	117,741	22,491	140,232	84.0	16.0	100.0
1970	124,543	25,788	150,331	82.8	17.2	100.0
1971	141,650	32,600	174,250	81.3	18.7	100.0
1972	166,410	39,772	206,182	80.7	19.3	100.0
1973	187,078	44,655	231,733	80.7	19.3	100.0
1974	200,987	48,314	249,301	80.6	19.4	100.0
1975	223,903	54,687	278,590	80.4	19.6	100.0
1976	260,895	62,110	323,005	80.8	19.2	100.0
1977	310,686	70,477	381,163	31.5	18.5	100.0
1978	356,156	76,651	432,808	82.3	17.7	100.0
1979*	393,373	82,424	475,797	82.7	17.3	100.0

*Preliminary.

†Beginning with 1966, includes (1) junior liens; (2) real estate sold on contract; and (3) collateral loans secured by assignment of first mortgage loans; beginning with 1973, excludes participation certificates guaranteed by FHLMC, loans and notes insured by the Farmers Home Administration, and certain other government-insured mortgage-type investments.

Sources: Federal Home Loan Bank Board; Federal Reserve Board.

CHART 35 • Mortgage Portfolio of All Associations, by Type of Property



Sources: Federal Home Loan Bank Board; Federal Reserve Board.

only slightly as a percentage of total loan acquisitions by insured associations—from 5.8% in 1960 to 9.9% in 1969 (Table 64).

Then a different trend appeared. Between 1970 and 1972 the volume of loan and participation purchases nearly tripled, reaching $10.6 billion, or 17.5% of total loans acquired, in 1972 (Chart 36).

The percentage then dropped back into the 12%-to-14% range from 1973 to 1977, and declined further to 9.2% in 1978, the lowest point in 12 years. It rose again slightly to 10.8% in 1979.

Loan Terms

The terms offered by mortgage lenders are important determinants of the demand for mortgage funds. Changes in mortgage interest rates and other terms may determine whether or not a prospective home buyer can afford the required monthly payments.

Loan terms changed dramatically in 1979 (Table 65). On new single-family home loans, interest rates were an unprecedented 161 basis points higher in December 1979 than they were in December 1978, and loan fees were 42 basis points higher. For existing home loans the increase in the interest rate was even steeper; it climbed 175 basis points, while loan fees were up 38 basis points.

Alternative Mortgage Instruments

After the experience of recent years, many people question the basic suitability of the traditional mortgage instrument in an era of high inflation rates and unsettled credit conditions. At the same time, the importance of younger buyers in today's housing market has prompted consideration of the adequacy of the standard mortgage contract in accommodating their special needs.

As the decade of the '70s came to a close, savings and loan associations, in conjunction with the Federal Home Loan Bank Board and HUD, were developing new mortgage instruments designed to meet the needs of families in diverse circumstances.

One of the new plans is the graduated payment mortgage, provided for by the Housing Act of 1977. Under this plan the interest rate on a home loan is fixed over the life of the loan, but the monthly payments start at a low level and gradually

TABLE 60 • Mortgage Loans Made by All Associations, by Purpose of Loan

	Millions of Dollars				Percentage Distribution			
Year	Home Construction	Home Purchase	All Other Purposes	Total	Home Construction	Home Purchase	All Other Purposes	Total
1950	$ 1,767	$ 2,246	$ 1,224	$ 5,237	33.7%	42.9%	23.4%	100.0%
1955	3,984	5,155	2,116	11,255	35.4	45.8	18.8	100.0
1960	4,678	6,132	3,494	14,304	32.7	42.9	24.4	100.0
1965	6,013	10,830	7,349	24,192	24.9	44.8	30.4	100.0
1966	3,653	7,828	5,443	16,924	21.6	46.3	32.2	100.0
1967	4,243	9,604	6,275	20,122	21.1	47.7	31.2	100.0
1968	4,916	11,215	5,852	21,983	22.4	51.0	26.6	100.0
1969	4,757	11,254	5,836	21,847	21.8	51.5	26.7	100.0
1970	4,150	10,238	6,998	21,386	19.4	47.9	32.7	100.0
1971	6,824	18,779	13,816	39,419	17.3	47.6	35.0	100.0
1972	8,548	26,594	16,227	51,369	16.6	51.8	31.6	100.0
1973	8,424	28,219	12,769	49,412	17.0	57.1	25.8	100.0
1974	6,503	22,641	9,814	38,958	16.7	58.1	25.2	100.0
1975	8,690	30,716	15,634	55,040	15.8	55.8	28.4	100.0
1976	12,960	45,727	20,089	78,776	16.5	58.0	25.5	100.0
1977	18,196	62,519	26,653	107,368	16.9	58.2	24.8	100.0
1978	20,136	65,585	24,573	110,294	18.3	59.5	22.3	100.0
1979*	18,565	60,744	21,237	100,546	18.5	60.4	21.1	100.0

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: Federal Home Loan Bank Board.

rise at a predetermined rate. The GPM is meant to serve the young, first-time home buyers who anticipate an improvement in their income but who need a lower monthly payment initially in order to qualify for a home purchase mortgage.

Another new type of mortgage is the reverse annuity mortgage. This mortgage permits retired people to realize a cash flow from the equity in their debt-free or nearly debt-free home. Under this plan, an association pays out a monthly sum to the retired homeowner and secures the payout by a gradually increasing mortgage on the occupied home. This plan permits older citizens to realize cash flow from their home while living in the residence.

Effective July 1, 1979, the Federal Home Loan Bank Board authorized federally chartered savings associations to offer variable rate mortgages. The VRM contains a provision permitting the interest rate to rise or fall in accordance with changes in the average cost of funds at all insured associations, as computed semiannually by the Federal Home Loan Bank Board.

Interest rate adjustments may not be made more frequently than once a year, with the first adjustment no sooner than one year after the first regular monthly payment. The maximum interest rate change up or down is ½ of 1% per year and the maximum interest rate increase over the life of the loan is 2.5%. Interest rate increases are optional but decreases are mandatory. When the borrowers are notified of a rate increase they may prepay the mortgage without penalty if they choose.

The fourth type of new instrument, the renegotiable rate mortgage, was authorized for federal associations effective April 3, 1980. The RRM has a note with a term of three, four or five years, secured by a long-term mortgage of up to 30 years. The loan is automatically renewable at equal intervals.

At renewal the interest rate may be adjusted up or down according to movements in the FHLBB monthly national average mortgage rate index, which is based on the contract rate of interest on previously occupied homes. Interest rate adjustments are limited to a maximum of ½ of 1% per year multiplied by the number of years in the renewal term, with a total increase or decrease of 5% over the life of the loan.

The lender must provide the borrower with a 90-day written notice prior to re-

TABLE 61 • One- to Four-family Homes Financed by All Associations

	Number of Homes†			Percentage Distribution†		
Year	New Homes	Existing Homes	Total	New Homes	Existing Homes	Total
1950	233,000	355,000	588,000	39.6%	60.4%	100.0%
1955	400,000	575,000	975,000	41.0	59.0	100.0
1960	379,000	609,000	988,000	38.4	61.6	100.0
1965	375,000	823,000	1,198,000	31.3	68.7	100.0
1966	190,000	542,000	732,000	26.0	74.0	100.0
1967	198,000	607,000	805,000	24.6	75.4	100.0
1968	215,000	662,000	877,000	24.5	75.5	100.0
1969	190,000	638,000	828,000	22.9	77.1	100.0
1970	160,000	543,000	703,000	22.8	77.2	100.0
1971	247,000	913,000	1,160,000	21.3	78.7	100.0
1972	285,000	1,175,000	1,460,000	19.5	80.5	100.0
1973	660,000	887,000	1,547,000	42.7	57.3	100.0
1974	475,000	654,000	1,129,000	42.1	57.9	100.0
1975	510,000	853,000	1,363,000	37.4	62.6	100.0
1976	680,000	1,120,000	1,800,000	37.8	62.2	100.0
1977	840,000	1,320,000	2,160,000	38.9	61.1	100.0
1978	825,000	1,220,000	2,045,000	40.3	59.7	100.0
1979	690,000	960,000	1,650,000	41.8	58.2	100.0

†Permanently financed new homes where the association did not make the construction loan were included in existing homes prior to 1973.

Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

newal, indicating any change in the interest rate and the monthly payment for the next term. After receiving this notice at the end of the first term the borrower may repay the loan without penalty at any time.

The VRM and the RRM overcome a limitation that has often threatened the capacity of associations to attract funds for mortgage lending. Associations write mortgages for a long term, with the interest rate fixed over that period. When interest rates on savings rise the fixed-rate loan becomes a drag on the interest-paying capabilities of the association. New borrowers must thus carry the entire cost of the higher earnings demanded by the saver.

These loans provide a method of spreading higher money costs among all mortgage customers rather than levying it against the new borrower. Also, the loans are subject to a lengthy list of regulatory constraints that protect the borrower's interests.

Consumer Legislation

A number of laws affecting mortgage lending practices have been passed in recent years, among them the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act and the Real Estate Settlement Procedures Act (Table 66).

The Equal Credit Opportunity Act outlaws any discrimination on the basis of sex or marital status with respect to any aspect of a credit transaction. From an operating viewpoint, this legislation has required the keeping of many additional records on all loan applicants.

The Mortgage Disclosure Act requires institutions in Standard Metropolitan Statistical Areas and with assets in excess of $10 million to itemize the number and dollar amount of residential mortgage and home improvement loans made.

The Real Estate Settlement Procedures Act requires that the lender provide the borrower with advance disclosures of all charges related to the making of the loan.

With the requirements of consumer le-

TABLE 62 • Mortgage Loans Made by Insured Associations, by Purpose of Loan
(Dollar Amounts in Millions)

Item	1978	1979*	Distribution of Loans Acquired 1978	Distribution of Loans Acquired 1979*
Construction Loans Closed:				
Single-family Homes	$ 18,762	$ 17,301	15.7%	15.6%
Two- to Four-family Homes	1,005	930	0.8	0.8
One- to Four-family Homes	$ 19,767	$ 18,231	16.6%	16.5%
Apartments	2,316	1,979	1.9	1.8
Other Structures	2,168	2,106	1.8	1.9
Purchase Loans Closed:				
New Single-family Homes	$ 17,525	$ 17,576	14.7%	15.9%
Existing Single-family Homes	43,437	38,925	36.4	35.1
Two- to Four-family Homes	3,422	3,147	2.9	2.8
One- to Four-family Homes	$ 64,384	$ 59,648	54.0%	53.9%
Apartments	2,743	1,962	2.3	1.8
Other Improved Real Estate	1,676	1,430	1.4	1.3
Loans Refinanced	10,724	9,221	9.0	8.3
Loans for Other Purposes	4,495	4,156	3.8	3.8
Total Loans Closed	$108,273	$ 98,730	90.8%	89.2%
Loans and Participations Purchased	10,984	12,012	9.2	10.8
Total Loans Acquired	$119,257	$110,742	100.0%	100.0%
Loans and Participations Sold	$ 15,485	$ 18,331		

Note: Components may not add to totals due to rounding.
*Preliminary.
Source: Federal Home Loan Bank Board.

gislation, loan documents have grown longer and more detailed. A count of the printed lines of required information in a complete mortgage loan package will show they have doubled in the last 10 years.

Compliance with legislation and regulation increases operating costs for all associations. Although the exact cost is difficult to establish, ultimately the consumer pays the bill.

A summary of the major federal laws down through the years and of recent major regulatory changes which affect the savings and loan business is provided at the end of this book.

Mortgage Insurance

Mortgage insurance plays an important role in facilitating residential lending. Because they specialize in mortgage originations, savings associations are major users of insurance services.

Federal agencies, and especially the FHA and VA, have insured or guaranteed qualifying loans for decades. Their activities are described in the chapter of this book on other government agencies.

Private companies have insured a rapidly increasing volume of mortgage loans since 1957. Private mortgage insurance is described in the chapter on residential financing.

Delinquencies and Foreclosures

The U.S. League's Loan Arrearage Ratio shows the percentage of loans on which payment is 60 or more days contractually delinquent. This ratio shows strong seasonality, peaking in January or February each year. It has trended downward since 1976, dropping below even the mid-1973 level from the highs of 1975 and early 1976 (Chart 37).

The number and rate of mortgage foreclosures by insured associations dropped during the first half of 1979, the latest period for which data are available (Table 67). The improvement has led to an all-time low in foreclosure rates.

Sources of Loanable Funds

The funds that associations place in new loans originate from four major sources. These are: (1) net gains in savings, (2) inflows from the existing mort-

TABLE 63 • Consumer Loans at Insured Associations
(Dollar Amounts in Millions)

Type	1974	1975	1976	1977	1978	1979*
Mobile Home Loans	$1,976	$2,112	$2,307	$ 2,551	$ 2,157	$ 2,151
Home Improvement Loans:						
Government-insured	416	485	599	749	855	897
Conventional	1,100	1,527	2,043	2,795	2,798	3,503
Loans Secured by Savings Accounts	1,526	1,700	2,175	2,882	3,950	6,014
Education Loans	408	441	469	542	638	883
All Other Loans	271	341	469	718	1,071	1,546
Total	$5,697	$6,606	$8,062	$10,237	$11,469	$14,994
Percentage Distribution						
Mobile Home Loans	34.7%	32.0%	28.6%	24.9%	18.8%	14.3%
Home Improvement Loans:						
Government-insured	7.3	7.3	7.4	7.3	7.5	6.0
Conventional	19.3	23.1	25.3	27.3	24.4	23.4
Loans Secured by Savings Accounts	26.8	25.7	27.0	28.2	34.4	40.1
Education Loans	7.2	6.7	5.8	5.3	5.6	5.9
All Other Loans	4.8	5.2	5.8	7.0	9.3	10.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Components may not add to totals due to rounding.
*Preliminary.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

gage portfolio, (3) retained earnings and (4) adjustments of liquidity holdings and borrowed funds.

Savings gains and inflows from the existing mortgage portfolio are by far the most important sources. Net gains in savings have been volatile, however, and their importance relative to portfolio inflows has varied considerably (Table 68).

In the late 1950s net savings gains con-

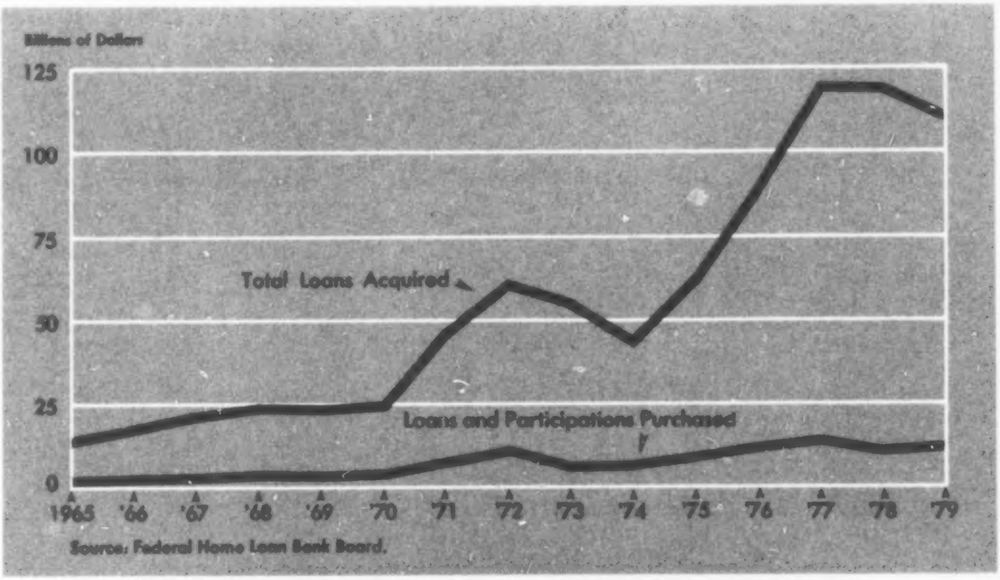
TABLE 64 • Mortgage Loans Acquired by Insured Associations

(Dollar Amounts in Millions)

Year	Loans Closed	Loans and Participations Purchased	Total Loans Acquired	Purchases as a Percentage of Total Loans Acquired
1960	$ 13,802	$ 851	$ 14,653	5.8%
1965	23,309	2,385	25,694	9.3
1966	16,323	1,186	17,509	6.8
1967	19,448	2,112	21,560	9.8
1968	21,298	2,332	23,630	9.9
1969	21,169	2,331	23,500	9.9
1970	20,760	3,745	24,505	15.3
1971	38,341	7,529	45,870	16.4
1972	50,024	10,612	60,636	17.5
1973	48,193	7,229	55,422	13.0
1974	38,050	5,904	43,954	13.4
1975	53,799	8,544	62,343	13.7
1976	77,103	12,799	89,902	14.2
1977	105,287	14,497	119,784	12.1
1978	108,273	10,984	119,257	9.2
1979*	98,730	12,012	110,742	10.8

*Preliminary.
Source: Federal Home Loan Bank Board.

CHART 36 • Mortgage Loans Acquired by Insured Associations



Source: Federal Home Loan Bank Board.

sistently provided nearly as great an amount of loanable funds as portfolio inflows did. The sharp savings cycles of the 1960s destroyed this regularity, and mortgage portfolio inflows, with their stability and large volume, became the dominant source of funds.

The 1970s saw some years of stunning savings gains which exceeded mortgage portfolio inflows and other years of relatively weak savings growth. In 1975 and 1976, net savings receipts exceeded portfolio inflows, while from 1977 through 1979 surging portfolio inflows surpassed savings gains.

A third source of funds is retained earnings, which appear in the association's income statement as the balance left after the payment of expenses and interest. Of the four sources of funds, they are the least important in dollar volume.

The fourth way in which associations obtain loanable funds is through adjustments in their liquidity holdings and borrowings. FHLB advances are the major type of borrowed funds. In some cases funds are also provided by loans from state housing finance agencies.

Borrowings of savings and loan associations increased by $12.5 billion in 1979. The chapters of this book on the balance sheet of associations and the FHLB System give details.

TABLE 66 • Federal Legislation Affecting Savings Association Mortgage Lending

Item	Year
Truth-in-lending Act	1968
Fair Housing Act	1968
Fair Credit Reporting Act	1970
Flood Disaster Protection Act	1973
Real Estate Settlement Procedures Act	1973
Equal Credit Opportunity Act	1974
Amendments to the Truth-in-lending Act	1974
Fair Credit Billing Act	1974
Home Mortgage Disclosure Act	1975
Amendments to the Real Estate Settlement Procedures Act	1976
Amendments to the Equal Credit Opportunity Act	1976
Amendments to the Flood Disaster Protection Act	1976
Consumer Leasing Act	1976
Community Reinvestment Act	1977

Source: U.S. League of Savings Associations.

Portfolio Inflows

Although mortgages are generally written with maturities of 20 to 30 years, loan portfolios turn over at a comparatively steady rate and provide a constant stream of loanable funds. These funds come into associations as (1) payments on amortized principal, (2) prepayments and (3) loan liquidations through the payoff of loans because of the sale of the mortgaged properties. In addition, associations sell loans and participations from the existing mortgage portfolio.

Since the end of World War II the inflows from mortgage loan portfolios have tended to drop in relation to total

TABLE 65 • Terms on Conventional Mortgage Loans at Associations

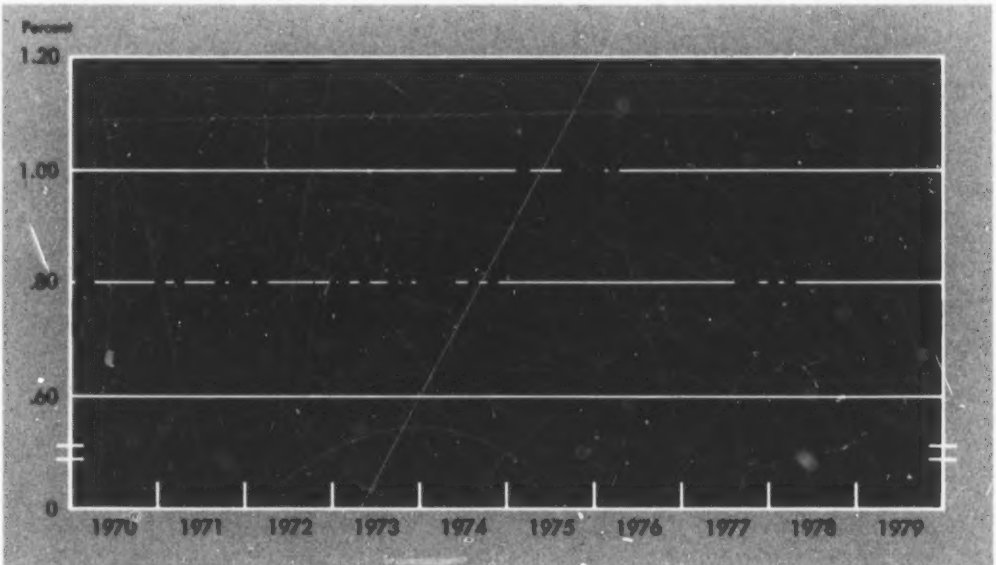
Item	Dec. 1976	Dec. 1977	Dec. 1978	Dec. 1979
New Single-family Homes:				
Interest Rate	8.89%	8.90%	9.79%	11.40%
Loan Fees	1.45%	1.42%	1.60%	2.02%
Maturity in Years	28.10	28.60	28.50	29.20
Loan-to-price Ratio	76.10%	76.30%	75.80%	74.20%
Average Purchase Price	$50,000	$58,000	$65,700	$78,400
Existing Single-family Homes:				
Interest Rate	8.93%	8.96%	9.94%	11.69%
Loan Fees	1.31%	1.31%	1.49%	1.87%
Maturity in Years	26.00	26.70	27.40	27.30
Loan-to-price Ratio	76.10%	76.30%	76.60%	75.30%
Average Purchase Price	$43,000	$48,900	$56,100	$62,000

Source: Federal Home Loan Bank Board.

loans outstanding. In 1950 the ratio of repayments to the average portfolio was 25.3%; in other words, at the 1950 rate the entire portfolio would have turned over in about four years.

Since then, the ratio has shown an uneven but generally downward trend, in spite of increases in the volume of loans sold. The ratio bottomed out at 10.2% in 1970 and has seesawed since. For 1979

CHART 37 • Mortgage Delinquency Ratios at Savings Associations†



†Percentage of mortgage loans 60 days or more in arrears.
Source: United States League of Savings Associations.

TABLE 67 • Mortgage Foreclosures by Insured Associations

	All Mortgage Loans		Conventional Loans		FHA and VA Loans	
Year	Number	Rate†	Number	Rate†	Number	Rate†
1965	53,788	.570%	41,817	.512%	11,971	.947%
1966	55,729	.576	44,184	.523	11,545	.929
1967	47,435	.483	38,310	.447	9,125	.739
1968	32,512	.324	25,436	.289	7,076	.555
1969	21,535	.209	15,572	.174	5,963	.435
1970	19,493	.186	12,777	.141	6,176	.461
1971	20,464	.189	11,278	.121	9,186	.549
1972	22,958	.199	10,045	.104	12,913	.687
1973‡	25,275	.208	10,639	.103	14,636	.770
1974	24,230	.192	11,945	.112	12,285	.623
1975	24,979	.195	15,538	.142	9,441	.491
1976	22,542	.168	15,800	.138	6,742	.353
1977	19,900	.141	13,468	.110	6,432	.351
1978	17,502	.117	12,214	.092	5,288	.303
1979§	8,364	.108	6,076	.088	2,288	.278

---

†Percentage of loans held.
‡New series.
§January through June; foreclosure rates are annualized.
Source: Federal Home Loan Bank Board.

it was 15.3% (Table 69 and Chart 38).

Several factors have combined to force the ratio downward. The decline in the relative importance of construction lending has reduced the volume of builders' payoffs of short-term loans. Longer loan maturities slow repayments and thus lower the repayment ratio. Reduced real estate activity can play a part too; when sales decline, so do loan payoffs. Periods of high mortgage rates also slow repayments by causing home buyers to assume sellers' lower rate existing loans.

Sales of whole loans and participations have grown tremendously in recent years. In 1966, the first year for which detailed data are available, insured associations sold $788 million in loans and participations (Table 70). By 1979 this figure had risen to $18.3 billion. From 1966 through 1979, sales as a percentage of total inflows increased from 5.7% to 26.9%, moving upward in all but three years.

Mortgage-backed Bonds

A newer and potentially important alternative to loan sales as a source of funds for savings associations is the issuance of mortgage-backed bonds. These securities are similar to corporate bonds but are backed by collateral in the form of a specified pool of mortgages on the books of the association. As a general rule, an association may issue mortgage-backed bonds in an amount equal to 5% of its savings deposits. These bonds may be marketed through private placements or sold to the public via a public offering.

Mortgage-backed bonds are direct obligations of the issuing association but, unlike savings accounts, carry no federal insurance or guarantee. The investor holds first claim to the specified loans in the collateral pool in the event of default. Interest is paid to the investor semiannually, and principal is repaid at designated intervals.

By issuing mortgage-backed bonds, an association can utilize many of its old, low rate loans to raise new funds without having to sell the loans at a loss.

Another advantage of mortgage-backed bonds is that their long-term maturity closely matches the average maturity of

TABLE 68 • Major Money Flows and Loan Acquisitions at All Associations

(Millions of Dollars)

	Major Sources of Funds					
Year	Net Savings Receipts	Mortgage Portfolio Inflows†	Retained Earnings	Total	Mortgage Loans Acquired‡	Excess or Deficiency of Funds
1950	$ 1,487	$ 3,202	$ 174	$ 4,863	$ 5,237	$— 374
1955	4,891	5,969	370	11,230	11,255	— 25
1960	7,559	7,803	590	15,952	15,206	+ 746
1965	8,513	16,975	805	26,293	26,667	— 374
1966	3,615	14,305	602	18,522	18,153	+ 369
1967	10,649	14,648	450	25,747	22,307	+ 3,440
1968	7,478	14,962	775	23,215	24,391	— 1,176
1969	4,079	14,548	929	19,556	24,251	— 4,695
1970	11,018	14,787	781	26,586	25,244	+ 1,342
1971	27,974	22,979	1,191	52,144	47,159	+ 4,985
1972	32,663	30,090	1,648	64,401	62,261	+ 2,140
1973	20,237	30,868	1,816	52,921	56,819	— 3,898
1974	16,068	27,377	1,386	44,831	45,003	— 172
1975	42,806	34,209	1,337	78,352	63,782	+14,570
1976	50,585	46,773	2,219	99,577	91,844	+ 7,733
1977	51,016	63,541	3,186	117,743	122,151	— 4,408
1978	44,864	68,940	3,873	117,677	121,475	— 3,798
1979*	39,471	69,289	3,509	112,269	112,769	— 500

*Preliminary.

†Before 1960, excludes sales of loans and participations.

‡Before 1960, excludes purchases of loans and participations.

Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

TABLE 69 • Mortgage Lending Activity of All Savings Associations

(Dollar Amounts in Millions)

Year	Loans Outstanding at Year-end†	Loans Closed and Purchased‡	Loan Repayments and Sales§ Amount	Loan Repayments and Sales§ As a Percentage of Average Portfolio
1950	$ 13,657	$ 5,237	$ 3,202	25.3%
1955	31,408	11,255	5,969	20.8
1960	60,070	15,206	7,803	13.8
1965	110,306	26,667	16,975	16.0
1966	114,427	18,153	14,305	12.7
1967	121,805	22,307	14,648	12.4
1968	130,802	24,391	14,962	11.8
1969	140,232	24,251	14,548	10.7
1970	150,331	25,244	14,787	10.2
1971	174,250	47,159	22,979	14.2
1972	206,182	62,261	30,090	15.8
1973	231,733	56,819	30,868	14.1
1974	249,301	45,003	27,377	11.4
1975	278,590	63,782	34,209	13.0
1976	323,005	91,844	46,773	15.5
1977	381,163	122,151	63,541	18.0
1978	432,808	121,482	68,940	16.9
1979*	475,797	112,778	69,289	15.3

---

*Preliminary.

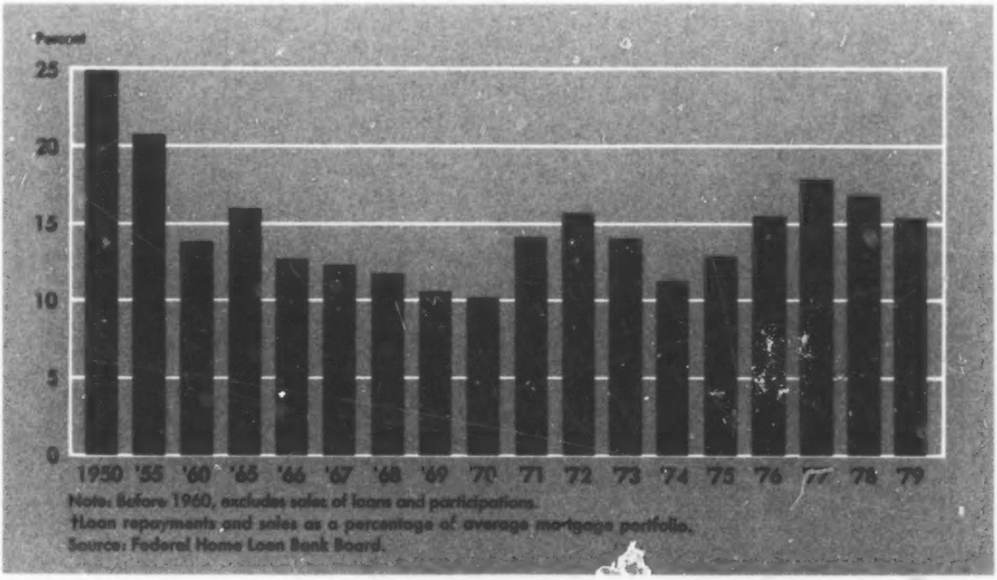
†Beginning with 1966, includes (1) junior liens; (2) real estate sold on contract; and (3) collateral loans secured by the assignment of first mortgage loans; beginning with 1973, excludes participation certificates guaranteed by FHLMC, loans and notes insured by the Farmers Home Administration, and certain other government-insured mortgage-type investments.

‡Before 1960, excludes purchases of loans and participations.

§Before 1960, excludes sales of loans and participations.

Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

CHART 38 • Turnover Ratio of Mortgage Portfolios at All Associations†



Note: Before 1960, excludes sales of loans and participations.

†Loan repayments and sales as a percentage of average mortgage portfolio.

Source: Federal Home Loan Bank Board.

mortgage loans, thus providing a needed balance between the asset and liability maturities of associations.

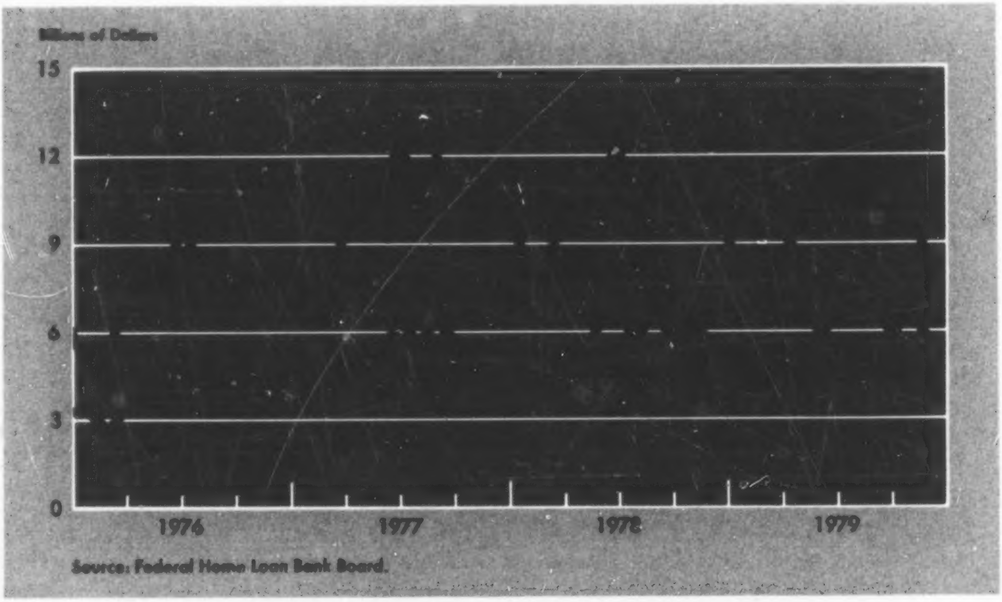
At first, FHA and VA mortgages were used exclusively, helping to earn the bonds an AAA rating from Standard and Poor's and ensuring marketability. Recent issues, however, have been highly successful with conventional mortgages serving as backing.

TABLE 70 • Inflows from Mortgage Portfolios at Insured Associations
(Dollar Amounts in Millions)

Year	Loan Repayments	Loans and Participations Sold	Total Inflows	Sales as a Percentage of Total Inflows	Turnover Ratio†
1966	$13,015	$ 788	$13,803	5.7%	12.7%
1967	13,281	877	14,158	6.2	12.4
1968	13,798	690	14,488	4.8	11.8
1969	13,588	518	14,106	3.7	10.7
1970	13,247	1,108	14,355	7.7	10.2
1971	20,186	2,165	22,351	9.7	14.2
1972	25,591	3,714	29,305	12.7	15.8
1973	26,652	3,457	30,109	11.5	14.1
1974	23,231	3,505	26,736	13.1	11.4
1975	28,230	5,206	33,436	15.6	13.0
1976	37,337	8,447	45,784	18.4	15.6
1977	48,467	13,846	62,313	22.2	18.1
1978	52,196	15,485	67,681	22.9	16.9
1979*	49,713	18,331	68,044	26.9	15.3

*Preliminary.
†Total inflows as a percentage of average mortgage portfolio.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

CHART 39 • Inflows from Mortgage Portfolios at Insured Associations and Mortgage Loans Acquired



Source: Federal Home Loan Bank Board.

Balance Sheet

A BALANCE SHEET is, in effect, a snapshot of the assets and liabilities of a business at the end of an accounting period. This picture of what a business owns and owes is frequently so detailed and complex that it is incomprehensible to all but the experienced eye. Unlike most other financial statements, however, the bal-

TABLE 71 • Condensed Statement of Condition of All Savings and Loan Associations as of December 31, 1979*

Item	Amount (Millions)	Percentage of Total
ASSETS:		
Mortgage Loans Outstanding	$475,797	82.1%
Insured Mortgages and Mortgage-backed Securities	20,507	3.5
Mobile Home Loans	2,190	0.4
Home Improvement Loans	4,484	0.8
Loans on Savings Accounts	6,135	1.1
Education Loans	898	0.2
Other Consumer Loans	1,576	0.3
Cash and Investments Eligible for Liquidity	39,825	6.9
Other Investments	6,716	1.2
Federal Home Loan Bank Stock	4,900	0.8
Investment in Service Corporations	2,085	0.4
Building and Equipment	7,583	1.3
Real Estate Owned	1,510	0.3
All Other Assets	5,101	0.9
Total Assets	$579,307	100.0%
LIABILITIES AND NET WORTH:		
Savings Deposits:		
Earning Regular Rate or Below	$118,906	20.5%
Earning in Excess of Regular Rate	351,265	60.6
Federal Home Loan Bank Advances	40,441	7.0
Other Borrowed Money	14,934	2.6
Loans in Process	9,511	1.6
All Other Liabilities	11,684	2.0
Net Worth	32,566	5.6
Total Liabilities and Net Worth	$579,307	100.0%

Note: Components may not add to totals due to rounding.
*Preliminary.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

ance sheet of associations is simple and readily understandable. The combined balance sheet of all savings associations as of year-end 1979 gives an overview of the business (Table 71).

The principal liability of savings associations is savings deposits, the funds entrusted by savers to associations and thus owed to those savers. The next most important liability item in the combined balance sheet is FHLB advances. Only slightly smaller is net worth—earnings retained over the years to protect against loss.

On the asset side of the balance sheet, the major item is mortgage loans, representing the money owed to associations by builders and buyers on loans secured by real estate. This brief summary of major balance sheet items points up the function of savings associations as financial intermediaries serving savers and home buyers.

Although the condensed balance sheet of all savings associations is simple, the complete semiannual statements of condition that associations must file with the FHLB Board show an extraordinary complexity. In 1979 these reports called for 68 asset items and 46 liability items.

A full analysis of the savings and loan business through its balance sheet would require a knowledge of many technical items. Understanding the summarized balance sheet, however, depends mainly on definitions of some specialized association terminology.

Housing-related Assets

As specialists in financing the construction and purchase of homes and apartments, associations have mortgage loans as their principal asset. At the end of 1979, mortgage loans amounted to $475.8 billion, or 82.1% of total assets (Table 72 and Chart 40).

Over the past few years several new housing-related types of investments have

TABLE 72 • Total Assets of All Savings and Loan Associations

(Millions of Dollars)

Year-end	Mortgage Loans[1,2]	Cash and Investment Securities[3]	Real Estate Owned	FHLB Stock	Other Assets[2,3]	Total Assets
1950	$ 13,657	$ 2,456	$ 21	$ 177	$ 582	$ 16,893
1955	31,408	4,549	33	507	1,159	37,656
1960	60,070	7,888	158	978	2,382	71,476
1965	110,306	12,123	1,065	1,236	4,850	129,580
1966	114,427	12,049	1,271	1,313	4,873	133,933
1967	121,805	13,941	1,353	1,327	5,108	143,534
1968	130,802	14,078	1,026	1,328	5,656	152,890
1969	140,232	13,311	822	1,424	6,360	162,149
1970	150,331	16,526	746	1,539	7,041	176,183
1971	174,250	21,042	775	1,550	8,406	206,023
1972	206,182	24,355	777	1,675	10,138	243,127
1973	231,733	21,055	910	2,075	16,132	271,905
1974	249,301	23,251	1,211	2,575	19,207	295,545
1975	278,590	30,853	1,662	2,600	24,528	338,233
1976	323,005	35,724	1,928	2,800	28,450	391,907
1977	381,163	39,150	1,787	3,200	33,941	459,241
1978	432,808	44,884	1,714	4,000	40,136	523,542
1979*	475,797	46,541	1,510	4,900	50,559	579,307

*Preliminary.

[1] Beginning with 1966, includes (1) junior liens; (2) real estate sold on contract; and (3) collateral loans secured by the assignment of first mortgage loans.

[2] Beginning in 1973, participation certificates guaranteed by FHLMC, loans and notes insured by the Farmers Home Administration, and certain other government-insured mortgage-type investments, previously included in mortgage loans, are included in other assets.

[3] Beginning in 1973, GNMA-guaranteed mortgage-backed securities of the pass-through type, previously included in cash and investment securities, are included in other assets.

Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

appeared in the balance sheet.

One such category is mortgages, participations and mortgage-backed securities insured or guaranteed by a federal agency or instrumentality.

Pass-throughs guaranteed by the Government National Mortgage Association are backed by mortgages, mainly on single-family dwellings. Notes insured by the Farmers Home Administration represent loans to finance farms, homes and community facilities in rural areas. Participations guaranteed by the Federal Home Loan Mortgage Corporation represent a share in a group of mortgage loans used to finance homes.

Mortgage-backed securities climbed to $20.5 billion at year-end 1979, 3.5% of assets; and loans secured by mobile homes totaled $2.2 billion, or 0.4% of assets. When added to the 82.1% invested in mortgage loans, they bring the total resources of the savings association business devoted to housing to 86%.

Home improvement loans, totaling $4.5 billion at year-end 1979, represented another housing-related lending activity of savings associations. The remaining types of loans on the balance sheet—savings account, education and other consumer loans—serve the household sector of the economy. Together they total 1.6% of the assets of all associations.

Another relatively new item in the balance sheet of associations is their investment in service corporations. At year-end 1979, this amounted to $2.1 billion, 0.4% of total assets. The service corporation is wholly owned by one or more associations. A broad range of activities is authorized for service corporations, but many have concentrated on land development; loans for mobile homes and mobile home parks; and housing rehabilitation and construction. Thus, the service corporation investment represents another contribution to the nation's residential environment.

Liquidity Investments

Cash and the government security and investment portfolio of savings and loan associations represent the second largest asset classification. While associations may legally purchase many kinds of securities, the bulk of the investment portfolio represents FHLBB-required liquidity holdings.

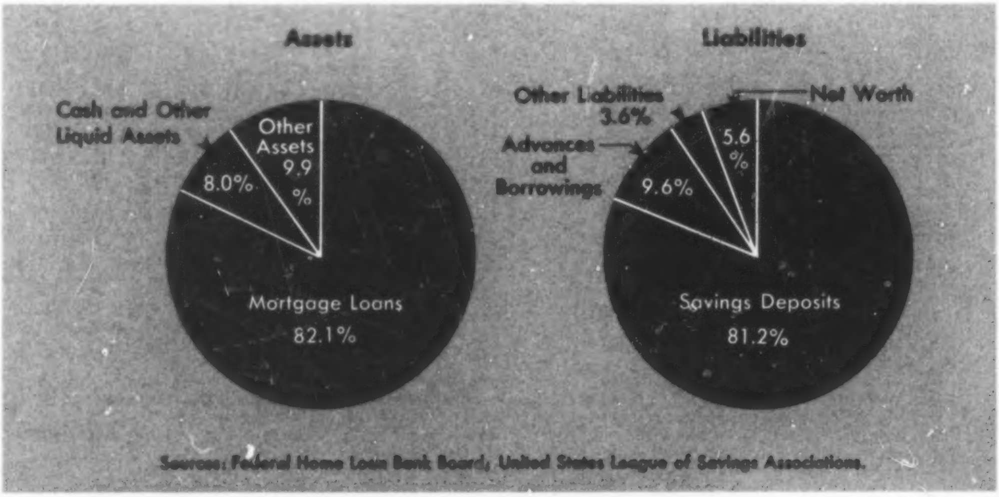
Liquidity requirements first were written into the Federal Home Loan Bank Act in 1950. The FHLB Act and the regulations of the FHLB Board determine the composition and maturity of legal liquid investments, and specify the required liquidity ratio.

Since 1972 the Federal Home Loan Bank Board has required that a specified portion of total liquidity be held in qualifying short-term investments (Table 73).

The base against which the liquidity

CHART 40 • Assets and Liabilities of All Associations, Year-end 1979

(Percentage Distribution)



Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

ratios are computed is composed of withdrawable savings deposits and borrowings repayable on demand or in one year or less. These numbers are the denominator in the computation. Qualifying investments are the numerator.

The investments that qualify as liquid assets include cash, demand deposits, U.S. government and federal agency securities with remaining terms to maturity of five years or less, commercial bank time deposits with remaining terms to maturity of not more than one year, bankers acceptances with a remaining maturity of not more than nine months, and state and municipal securities with remaining maturities of not more than two years.

In computing short-term liquidity, all the above investments may be included except U.S. government and agency issues with maturities longer than 12 months, commercial bank time deposits and bankers acceptances with maturities longer than six months, and all state and local government obligations.

The Board is empowered by law to vary the liquidity ratio between 4% and 10%. It generally reduces the liquidity requirements to increase the funds available for mortgage lending when savings inflows decline and increases liquidity requirements when funds seem more abundant.

Other Assets

Real estate owned is an asset that arises from the mortgage lending function of savings and loan associations. The institution acquires such property after borrowers default on their loans. At year-end 1979, real estate owned amounted to $1.5 billion, or 0.3% of the total assets of all associations.

Savings and loan associations that are members of the Federal Home Loan Bank System are required to hold stock in their district Bank equal to 1% of the principal balance due on the association's loans outstanding. Savings and loan associations held $4.9 billion of such stock at year-end 1979.

The general classification of all other assets includes such items as prepayments to the secondary reserve at the Federal Savings and Loan Insurance Corporation, Federal National Mortgage Association stock and investments in subsidiaries other than service corporations.

TABLE 73 • Minimum Liquidity Requirements for Members of the Federal Home Loan Bank System

Effective Date	Minimum Percentage† Short-term	Overall
December 1950	...	6.0%
March 1961	...	7.0
August 1968	...	6.5
June 1969	...	6.0
December 1969	...	5.5
April 1971	...	6.5
May 1971	...	7.5
August 1971	...	7.0
January 1972	3.0%	7.0
May 1973	2.5	6.5
August 1973	1.5	5.5
September 1974	1.0	5.0
April 1975	1.5	5.5
June 1975	2.0	6.0
September 1975	2.5	6.5
March 1976	3.0	7.0
May 1978	2.5	6.5
January 1979	2.0	6.0
November 1979	1.5	5.5

†Liquid assets as a percentage of total savings deposits, plus borrowings repayable on demand or within one year.

Source: Federal Home Loan Bank Board.

Savings Balances

As is true of other corporations and financial institutions, the balance sheet of savings and loan associations lists as liabilities the claims of others against them. Because associations are savings institutions, the largest claim against them is represented by their savings deposits.

Aggregate savings at all associations amounted to $470.2 billion, or 81.2% of total liabilities in 1979.

Loans in Process

Associations carry a liability item known as loans in process. This account represents the undisbursed portion of mortgage loans which have been recorded as an asset. Loans in process dropped from $10.7 billion in 1978 to $9.5 billion in 1979 (Table 74), 1.6% of all liabilities.

Loans in process frequently are deducted from total mortgage loans and may be omitted when computing total assets. This gives a better year-to-year measure of a savings association's financial position, particularly when comparing years during which the dollar amount of the loans in process account changed substantially.

Other Liabilities

Federal Home Loan Bank advances are another important liability of savings associations. Borrowings from regional Banks were at $40.4 billion at year-end 1979, up from $32 billion in 1978. Also, $14.9 billion was owed to other institutions, mainly commercial banks.

All other liabilities of associations totaled $11.7 billion. About one-quarter of this amount was represented by advance payments by borrowers of taxes and insurance. The rest included such diverse obligations as federal taxes accrued but unpaid, savings account interest accrued but not yet paid and minor items such as mortgages on office premises.

Association Net Worth

At the end of 1979, association net worth totaled $32.6 billion and represented 5.6% of the total footings of savings and loan associations.

This balance sheet category includes general reserves; paid-in surplus; undivided profits; and, for a stock association, the par value of its permanent, reserve or guaranty stock. General reserves are by far the largest component of savings association net worth. They are set aside to protect savers against any loss that may be incurred on the asset side of the balance sheet.

Use of the term "reserves" in the savings and loan business contrasts sharply with commercial banking usage. When banking literature discusses reserves, it almost always refers to an asset item. These reserves represent the cash funds held against demand and time deposits in accordance with state and federal laws and regulations. Federal Reserve members must keep such reserves on deposit at their Federal Reserve Banks.

Because of the quite different meanings of reserves for commercial banks and savings associations, associations have turned to the term "net worth." This latter language is now a part of the regulatory terminology of the Federal Home Loan Bank System.

TABLE 74 • Total Liabilities of All Savings and Loan Associations

(Millions of Dollars)

Year-end	Savings Deposits	FHLB Advances[1]	Loans in Process	Other Liabilities	Net Worth[2]	Total Liabilities
1950	$ 13,992	$ 900	$ 403	$ 318	$ 1,280	$ 16,893
1955	32,142	1,546	912	499	2,557	37,656
1960	62,142	2,197	1,186	968	4,983	71,476
1965	110,385	6,444	2,198	1,849	8,704	129,580
1966	113,969	7,462	1,270	1,788	9,444	133,933
1967	124,493	4,775	2,257	2,093	9,916	143,534
1968	131,618	5,705	2,449	2,427	10,691	152,890
1969	135,538	9,728	2,455	2,808	11,620	162,149
1970	146,404	10,911	3,078	3,389	12,401	176,183
1971	174,197	8,992	5,029	4,213	13,592	206,023
1972	206,764	9,782	6,209	5,132	15,240	243,127
1973	226,968	17,172	4,667	6,042	17,056	271,905
1974	242,974	24,780	3,244	6,105	18,442	295,545
1975	285,743	20,634	5,128	6,949	19,779	338,233
1976	335,912	19,083	6,840	8,074	21,998	391,907
1977	386,800	27,840	9,911	9,506	25,184	459,241
1978	430,953	42,907	10,721	9,904	29,057	523,542
1979*	470,171	55,375	9,511	11,684	32,566	579,307

---

*Preliminary.

[1] Includes other borrowed money.

[2] Beginning with 1966, excludes paid-in surplus of stock associations, specific reserves of all associations; beginning with 1967, includes net undistributed income which is accrued by most, but not all, associations.

Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

Savings and Loan Operations

THE SAVINGS AND LOAN BUSINESS operates within a comprehensive framework of state and federal laws and regulations. These rules set the requirements for the chartering of new institutions, govern operational practices, and describe the kinds of loans and other investments that may be made.

In their daily transactions, savings and loan associations face a tangle of requirements that becomes ever more complicated. In addition to supervision by their respective chartering agencies, all federally insured savings and loan associations must conform to the rules and regulations of the Federal Savings and Loan Insurance Corporation.

In addition to legal and regulatory constraints, the economic environment strongly affects both savings flows and mortgage lending volume. Monetary policy has had a profound effect on savings and loan associations, particularly since the end of 1965, reaching into all facets of their operations. Both their balance sheets and income statements of the past 14 years reflect the pervasive force of monetary changes.

The fundamental economic role of a savings and loan association is that of a financial intermediary whose basic functions are to (1) garner savings from the public and (2) lend the bulk of those savings to home builders and buyers.

Many forces must be reconciled in order to produce a sound savings and loan institution. Decisions on such matters as liquidity, the use of borrowed funds, income and expense, and personnel must all be made in a manner that will maximize the savings and home financing services offered the community. The overriding consideration at all times, of course, is the soundness of the savings and loan association.

Changes in General Framework

For more than a decade the framework within which savings and loan associations conduct their business has been going through extensive alterations, because of changes in both enabling legislation and Federal Home Loan Bank Board regulations.

As a result of these changes, savings associations are becoming less insulated from money market fluctuations and competition from other financial institutions. Thus, association managers have had to become increasingly responsive to economic, competitive and other trends in their operating environment.

Recent major regulatory changes affecting the savings and loan business are summarized at the end of this book. The most massive change in decades, however, came in the financial reform bill of March 1980, an outline of which appears in the federal legislative summary, also at the end of the book.

Funds Transfer Services

The provision by savings and loan associations of funds transfer facilities has been one of the most widely discussed areas of operations in the last few years. These facilities fall into three broad categories.

First, there are the remote service units. These include both automated teller machines located off the association premises and operated by the customer, and clerk-

or customer-operated terminals installed in retail establishments. Remote service machines typically handle only deposits, withdrawals and check authorization transactions, although some automated teller machines dispense cash and accept loan payments as well.

Federal savings and loan associations were for some years permitted to install remote service units on a limited experimental basis. Permanent regulations were issued in mid-1978.

The legality of these regulations was then questioned as a result of a lawsuit brought on the issue of automatic transfers of funds to checking accounts at commercial banks. Definite authority to offer this service was included as a part of the omnibus financial reform bill signed into law in March 1980.

The second innovative form of funds transfer service is the automated clearing house. This involves the preauthorized transfer of funds from a consumer's account to a company's account or vice versa. Typical forms of this service are the direct deposit of payrolls and government benefit payments, as well as preauthorized loan payments and credit transfer payments. Commercial bank automated clearing house systems are for the most part available to thrift institutions, though sometimes on less than a fully equal basis.

The last and most important funds transfer concept is third-party payment systems, in particular checking accounts and NOW (negotiable order of withdrawal) accounts, which are the two most controversial of the various proposed systems. Checking accounts, or demand deposits, have long been the sole preserve of banks; associations generally have been prohibited from offering them, with the recent exception of state-chartered institutions in Connecticut, Maine and New York.

NOW accounts are quite different from checking accounts, although they permit check-like drafts to be drawn against the interest-bearing deposits. NOW accounts were first authorized in Massachusetts and New Hampshire in 1974. That authority was extended to federally chartered savings and loan associations in all New England states in 1976, and subsequently to associations in New York and New Jersey. State-chartered associations in a few jurisdictions currently are permitted to offer non-interest-bearing NOW accounts.

TABLE 75 • Phase-in Provisions of the 1969 Tax Act

Taxable Year	Allowable Percentage of Net Income Transferable to Loss Reserves
1969	60%
1970	57
1971	54
1972	51
1973	49
1974	47
1975	45
1976	43
1977	42
1978	41
1979	40

Source: U.S. League of Savings Associations.

A major feature of the financial reform package of March 1980 was nationwide NOW account authority for savings associations beginning at year-end 1980.

Federal Taxation

Savings and loan associations first were made subject to federal corporate income tax in 1951. In general, they are taxed like other corporations; the major difference is the provision that income which is added to reserves, up to specified limits, is tax deductible.

The 1951 law specified that associations did not have to pay taxes on income added to reserves until total net worth amounted to 12% of savings account balances. Because most savings and loan associations did not have net worth at this level, they paid little income tax until 1962.

The Revenue Act of 1962 considerably increased the income tax liability of savings associations; most began paying federal income taxes for the first time.

The Tax Reform Act of 1969 established a new method for the treatment of deductions. It provides for the basing of deductible additions to reserves on a percentage of mortgage loans outstanding. In tax years 1970 through 1975 this percentage was 1.8%. Thereafter, deductible additions are reduced by 0.6% for each subsequent six-year period, until they disappear completely after 1987.

The 1969 law also made major changes in the percentage-of-taxable-income method. The allowable percentage of taxable income was gradually reduced from 60% to 40% over the 10-year period 1970-79 (Table 75). Furthermore, the allowable percentage for any given year was subject to further reduction if the institution held less than 82% of its total assets in residential loans and other qualifying investments.

In May 1979 the IRS changed these regulations to require recomputation of the bad debt deduction under the percentage-of-taxable-income method for any year to which a net operating loss was carried back.

The 1969 act also instituted a tax on preference items of income. These "tax preference" items include accelerated depreciation on real property, capital gains and any additions to an association's reserves that exceed actual bad debt experience. Additionally, many savings associations were affected by provisions of the Tax Reform Act of 1976 relating to tax preferences. Effective in 1978, allowable deductions were reduced while the tax rate on preference items was increased.

Although the 1969 act substantially raised the tax liability of associations, it liberalized the criteria an association must meet in order to claim tax status as a "domestic building and loan association."

To qualify, an institution must pass three tests. One is a supervisory test. This requires that the institution be supervised by a state or federal agency, or be insured by the Federal Savings and Loan Insurance Corporation.

The second is a business operations test, which requires that at least 75% of the total deposits of an association be held by the general public, and that at least 75% of the institution's gross income be derived primarily from mortgage loans. Before 1969 the percentage required in this test was 85%.

Third is an assets test. This test requires that 60% of an association's assets be held in cash, specified types of government obligations and certificates of deposit, residential mortgages and certain other specified investments.

High Effective Rate

A review of the federal income tax laws and regulations governing associations might create the impression that they have been afforded a number of loopholes that reduce their effective tax rate. The fact is that savings associations are among the most heavily taxed financial corporations in America.

Their effective tax rate in recent years has been higher than that of commercial banks. This situation arises from the fact that associations have only one deduction—additions to their loss reserves. In contrast, banks can take advantage of a variety of tax shelters, not all of which are subject to the preference tax.

Reserve Requirements

There are important differences in the treatment of loss reserves by the tax authorities and by the Federal Savings and Loan Insurance Corporation. Basically, the IRS allows associations to make certain tax-free additions to reserves, while the FSLIC requires insured associations to add specified amounts to reserves and to build reserves equal to 5% of their total savings accounts, in order to afford protection to savers. The financial reform legislation of March 1980 allows the Federal Home Loan Bank Board to vary this requirement anywhere from 3% to 6%.

In addition to the reserve requirement, the FSLIC also requires associations to meet a net worth requirement. On each annual closing date, an association's net worth must equal the greater of (1) the Federal Insurance Reserve requirement, plus 20% of scheduled items; or (2) an amount determined by an "asset composition and net worth" index.

Scheduled items are primarily mortgage loans contractually delinquent 90 days or more; and real estate owned as a result of foreclosure, repossession or deed in lieu of foreclosure.

Under the asset composition and net worth index, an association is required to hold net worth in relation to the riskiness of its assets. Each kind of asset is assigned a relative risk percentage; the higher the risk, the higher the percentage. To determine its total net worth requirement, an association multiplies the amount of each kind of asset by the respective risk percentage and adds the results. The riskier an association's assets, the higher the net worth it is required to maintain under this method of computation.

Subordinated Debentures

A significant change in associations' liability structure was introduced with the regulatory change that authorized subordinated debentures and capital notes. The new rules became effective in early 1973. The claim of these securities against an association's assets is subordinate to that of savings deposits and certificates. Neither the principal of nor the interest on debentures and capital notes is insured by the Federal Savings and

TABLE 76 • Statement of Operations of All Savings Associations

(Millions of Dollars)

Year	Operating Income	Operating Expense	Net Operating Income	Interest on Savings Deposits	Interest on Borrowed Money	Net Income before Taxes	Taxes	Net Income after Taxes
1950	$ 718	$ 196	$ 522	$ 333	$ 12	$ 179	...	$ 179
1955	1,687	415	1,272	871	30	376	$ 6	370
1960	3,711	811	2,900	2,250	81	581	4	577
1965	7,081	1,366	5,715	4,486	247	978	157	821
1966	7,566	1,417	6,149	4,986	380	771	117	654
1967	8,066	1,471	6,595	5,585	290	725	111	614
1968	8,913	1,602	7,311	6,013	290	1,041	170	871
1969	9,941	1,773	8,168	6,450	466	1,273	227	1,046
1970	11,039	1,967	9,072	7,187	785	1,152	248	904
1971	13,073	2,180	10,893	8,604	623	1,739	448	1,291
1972	15,572	2,524	13,048	10,266	493	2,378	649	1,729
1973	18,692	3,026	15,666	12,012	942	2,729	779	1,950
1974	21,477	3,490	17,987	14,015	1,731	2,213	681	1,532
1975	24,193	3,979	20,214	16,420	1,640	2,135	650	1,485
1976	28,878	4,689	24,189	19,537	1,425	3,294	992	2,302
1977	34,623	5,443	29,180	23,034	1,539	4,710	1,442	3,268
1978	41,409	6,302	35,107	26,550	2,720	5,832	1,835	3,997
1979*	49,688	7,213	42,475	32,987	4,250	5,344	1,600	3,744
Percentage Distribution of Income								
1950	100.0%	27.3%	72.7%	46.4%	1.7%	24.9%	...	24.9%
1955	100.0	24.6	75.4	51.6	1.8	22.3	0.4%	21.9
1960	100.0	21.9	78.1	60.6	2.2	15.7	0.1	15.5
1965	100.0	19.3	80.7	63.4	3.5	13.8	2.2	11.6
1966	100.0	18.7	81.3	65.9	5.0	10.2	1.5	8.6
1967	100.0	18.2	81.8	69.2	3.6	9.0	1.4	7.6
1968	100.0	18.0	82.0	67.5	3.3	11.7	1.9	9.8
1969	100.0	17.8	82.2	64.9	4.7	12.8	2.3	10.5
1970	100.0	17.8	82.2	65.1	7.1	10.4	2.2	8.2
1971	100.0	16.7	83.3	65.8	4.8	13.3	3.4	9.9
1972	100.0	16.2	83.8	65.9	3.2	15.3	4.2	11.1
1973	100.0	16.2	83.8	64.3	5.0	14.6	4.2	10.4
1974	100.0	16.3	83.7	65.3	8.1	10.3	3.2	7.1
1975	100.0	16.4	83.6	67.9	6.8	8.8	2.7	6.1
1976	100.0	16.2	83.8	67.7	4.9	11.4	3.4	8.0
1977	100.0	15.7	84.3	66.5	4.4	13.6	4.2	9.4
1978	100.0	15.2	84.8	64.1	6.6	14.1	4.4	9.7
1979*	100.0	14.5	85.5	66.4	8.6	10.8	3.2	7.5

Note: Components do not add to totals because of the exclusion of some minor nonoperating income and expense items.
*Preliminary
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

Loan Insurance Corporation.

Subordinated debt is considered by many financial analysts to be the equivalent of permanent capital, since it combines distant maturity and subordination. Liberalization of the rules for this source of capital was an element in the 1980 financial reform legislation.

Service Corporations

In the Housing Act of 1964, Congress first authorized federally chartered savings and loan associations to invest in service corporations. Due to the restrictive nature of the regulations which were subsequently issued, however, there was little real interest shown by associations in making such investments. In an effort to broaden association operations and relieve them of some of the earnings volatility caused by changes in economic conditions, the Federal Home Loan Bank Board relaxed many of its initial regulations concerning service corporations during 1970.

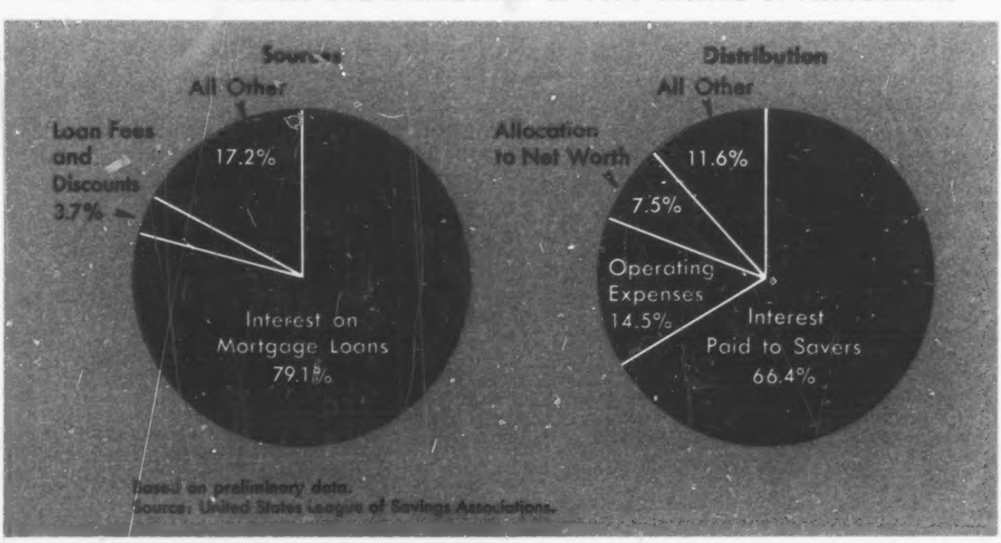
Service corporations may now engage in a broad range of activities. Among these activities are (1) the origination, purchasing, selling, servicing, brokering and warehousing of first mortgages; (2) the performance of clerical, appraisal, research and other services for savings associations; (3) the acquisition of unimproved real estate and the development and subdivision of it for sale or rental; (4) the acquisition of improved real estate to be held for rental; (5) the acquisition of improved real estate and its renovation for sale or rental; (6) the maintenance and management of rental real estate; (7) the performance of insurance agent or brokerage services; (8) consumer lending; (9) the formation of joint ventures; and (10) the performance of escrow agent and trustee services under deeds of trust.

Initially, an association could invest a maximum of 1% of its total assets in service corporations. The ceiling was raised to 3% in the financial reform bill, although half of the amount over 1% must be devoted to community reinvestment. The investment total includes notes, bonds, debentures and secured debt as well as capital stock. In addition, however, a service corporation may leverage association investments with debt capital attracted from other sources.

There are two types of service corporations. The type A corporation is a statewide corporation, and all eligible associations in the state may invest in it. The type B corporation, on the other hand, may be owned only by a limited number of associations. Additionally, there are two categories of type B corporations: those owned by five or more associations and those owned by fewer than five.

The form of service corporation preferred by savings associations is the sec-

CHART 41 • Sources and Distribution of 1979 Income of Associations



Based on preliminary data.
Source: United States League of Savings Associations.

ond type B category. It is estimated that in 1979 about 97% of all service corporations were of this type.

The Economic Environment

The radical shifts in monetary conditions during the last 14 years have had far-reaching effects on the operations of savings and loan associations. New problems in both asset and liability management have arisen, and income statements have reflected the inherent problems of a business that borrows short-term and lends long-term.

Rising interest rates have an adverse effect on the earnings of associations. Although both mortgage rates and savings rates rise, savings rates increase for the entire stock of savings while mortgage rates rise only for new loans. As the yields on loan portfolios grow more slowly than the cost of funds financing those loans, associations develop an unfavorable income-cost relationship. The addition of high-cost money market certificates to the savings stock in 1978 set the stage for such an earnings squeeze in 1979.

Income Sources and Allocation

Continuous growth in assets over many years has carried the operating income of savings and loan associations to new highs each year (Table 76).

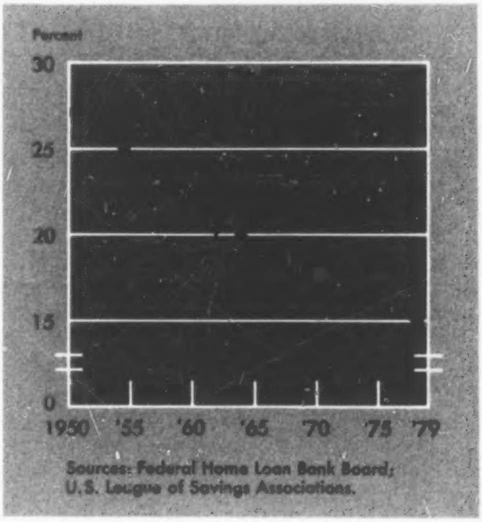
Mortgage interest income is by far the major source of their earnings, while the largest use of these earnings is the payment of interest to savings account holders (Chart 41).

TABLE 77 • Mortgage Interest Income as a Percentage of Association Operating Income

Year	Percent	Year	Percent
1950	85.3%	1971	83.1%
1955	84.8	1972	83.4
1960	83.3	1973	83.5
1965	86.8	1974	82.3
1966	87.4	1975	81.6
1967	86.1	1976	80.5
1968	85.1	1977	80.8
1969	84.9	1978	80.5
1970	84.3	1979*	79.1

*Preliminary.
Sources: Federal Home Loan Bank Board; U.S. League of Savings Associations.

CHART 42 • Ratio of Operating Expense to Association Income



Sources: Federal Home Loan Bank Board; U.S. League of Savings Associations.

Interest on mortgage loans represented 79.1% of the operating income of associations in 1979 (Table 77). Mortgage loan fees and discounts accounted for another 3.7%, bringing income from mortgage lending activity to 82.8% of the total.

Savers received 66.4%, or $33 billion, of the total operating income earned by all associations in 1979 (Table 76). Another 7.5% was added to net worth, which serves to protect savers against the loss of their savings. Thus, 73.9%, or nearly $74 out of every $100 earned last year, benefited savers directly through interest credited to their accounts or indirectly through the buildup of association net worth.

Trailing far behind the funds allocated to savers were the operating expenses of associations and the interest on borrowed funds.

Operating expenses absorbed 14.5% of operating income last year, nearly the same as in 1978 (Chart 42). This ratio has undergone a substantial decline over the years, due to increases in operating efficiency. Salaries and wages are the principal operating cost of associations, accounting for 48.4% of current operating expenses in 1979 (Table 78).

The interest expense on borrowed money reached an all-time high of $4.2 billion in 1979. This was 8.6% of operating income, considerably higher than in the preceding four years.

TABLE 78 • Total Operating Expense of Associations

(Percentage Distribution)

Year	Compensation	Office Occupancy	Advertising	All Other
1950	51.3%	5.2%	9.4%	34.1%
1955	49.8	4.7	11.5	34.0
1960	46.2	6.3	12.1	35.4
1965	46.7	11.9	9.6	31.8
1966	46.3	12.7	9.3	31.7
1967	46.3	12.3	9.3	32.1
1968	46.0	12.2	9.4	32.4
1969	45.7	12.7	9.5	32.1
1970	45.4	12.4	10.1	32.1
1971	47.2	11.4	9.3	32.1
1972	47.2	10.0	9.6	33.2
1973	46.6	9.8	10.5	33.1
1974	46.5	10.3	10.2	33.0
1975	46.8	11.0	9.1	33.1
1976	46.6	11.0	7.5	34.9
1977	47.1	10.8	7.2	34.9
1978	47.5	10.6	7.8	34.1
1979*	48.4	10.4	8.2	33.0

*Preliminary.
Sources: Federal Home Loan Bank Board; U.S. League of Savings Associations.

The net income of savings and loan associations is the balance remaining after deducting from current income all operating expenses, interest on savings deposits and on borrowed money, income taxes, and the difference between nonoperating income and nonoperating expenses. Net income last year came to $3.7 billion, or 7.5% of operating income.

Return on Assets

The net income figure does not in itself gauge the efficiency of the savings and loan business, because it does not reveal the full amount of resources used in generating profits. Greater insight is provided by the return on assets—the ratio of after-tax income to average assets, excluding loans in process.

In 1975 the return on assets for the savings and loan business as a whole was 0.48%, the lowest rate since 1967. Return on assets then recovered steadily to a 16-year high of 0.84% in 1978 but fell back to 0.69% in 1979 (Table 79). The major reason for the falloff was the sharp rise in interest paid to savings depositors because of the massive switching into high-rate money market certificates.

The ratio of operating expenses to assets has not changed significantly in recent years and stood at 1.34% for 1979.

Income and Assets

Increases in the ratio of gross operating income to assets result from two factors: (1) a favorable spread between the yield on the existing loan portfolio and new

TABLE 79 • Changes in Income and Expense Ratios of All Savings and Loan Associations†

Item	1977	1978	1979*	Annual Change 1978	Annual Change 1979*
Operating Income	8.34%	8.65%	9.20%	0.31%	0.55%
Operating Expenses	1.31	1.32	1.34	0.01	0.02
Net Operating Income	7.03%	7.33%	7.86%	0.30%	0.53%
Interest on Savings Deposits	5.55	5.55	6.11	0.00	0.56
Interest on Borrowed Money	0.37	0.57	0.79	0.20	0.22
Nonoperating Income and Expense (net)	0.02	0.00	0.02	−0.02	0.02
Net Income before Taxes	1.13%	1.22%	0.99%	0.09%	−0.23%
Taxes	0.35	0.38	0.30	0.03	−0.08
Net Income after Taxes (Return on Assets)	0.79%	0.84%	0.69%	0.05%	−0.15%

Note: Components may not add to totals due to rounding.
*Preliminary.
†Income and expense items as a percentage of average assets excluding loans in process.
Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

loan rates, so that the addition of new mortgages increases the average yield; and (2) a strong demand for mortgages which can be satisfied from an ample supply of funds.

Rising interest rates and increasingly efficient money management techniques have caused a long-term upward trend in the ratio of gross operating income to average assets (Chart 43).

During 1975, mortgage loan demand was still sluggish as a result of the uncertainties created by the 1973-74 recession, and associations were able to lend only 76.7% of the $71.7 billion in new funds. Also, liquidity holdings increased 35.6%, partly as a result of three separate increases in the FHLBB-required minimum. The combination of a less-than-strong loan demand and increased holdings of low-yield liquid investments dragged down association earning power. This was reflected in a very weak gain in the income-to-assets ratio.

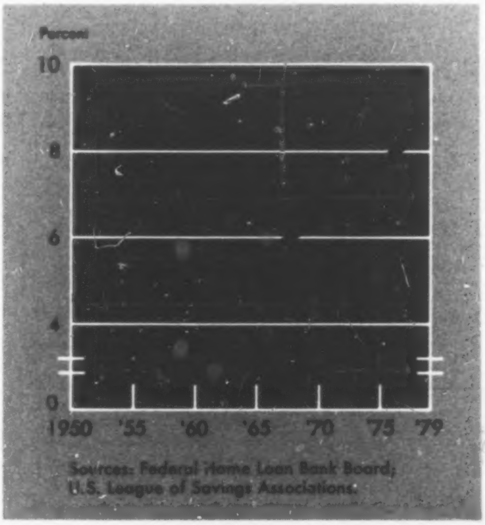
Since 1976, however, savings and loan associations have had little difficulty in placing available funds in new mortgages. The amount invested in new mortgages last year by associations again surpassed savings gains plus loan repayments, accounting for 111.6% of the $90.1 billion received from these two sources. In 1979 the problem for associations was that the increases in the mortgage portfolio yield, even with lending down only slightly from the record levels of 1978, could not keep up with increases in the cost of savings.

TABLE 80 • Net Increase in Association Net Worth and Year-end Ratios

Year	Net Increase in Net Worth (Millions)	Ratio of Net Worth to Savings Deposits	Ratio of Net Worth to Total Assets
1950	$ 174	9.15%	7.58%
1955	370	7.96	6.79
1960	590	8.02	6.97
1965	805	7.89	6.72
1966	602	8.29	7.05
1967	450	7.97	6.91
1968	775	8.12	6.99
1969	929	8.57	7.17
1970	781	8.47	7.04
1971	1,191	7.80	6.60
1972	1,648	7.37	6.27
1973	1,816	7.51	6.27
1974	1,386	7.59	6.24
1975	1,337	6.92	5.85
1976	2,219	6.55	5.61
1977	3,186	6.51	5.48
1978	3,873	6.74	5.55
1979*	3,509	6.93	5.62

*Preliminary.
Source: Federal Home Loan Bank Board.

CHART 43 • Ratio of Association Operating Income to Average Assets



Sources: Federal Home Loan Bank Board; U.S. League of Savings Associations.

Association Net Worth

The buildup of net worth has been an important factor in making savings associations strong and secure, and reducing risk from possible losses on assets. Allocations to net worth are made from the income dollars remaining after expenses, interest paid to savers and on borrowed money, and taxes have been deducted. Net income after taxes also is the source for additions to specific reserves, and for the earnings paid to stockholders by capital stock associations. The bulk of net income, however, is added to the association's net worth accounts.

Net worth allocations in a given year seldom equal the year-to-year balance sheet changes in this category. The primary reason is that net worth shown on the balance sheet is affected by direct charge-offs of losses and gains on real estate loans and other investments. In 1979 the balance sheet increase in net worth was $3.5 billion (Table 80).

The dollar growth in net worth last year was less than that of 1978 but, in percentage terms, still outgained the increase in total assets. The result was that the ratio of net worth to assets rose from 5.55% in 1978 to 5.62% in 1979.

Return on Net Worth

The percentage increase in net worth is referred to as the return on net worth. This index of profitability has oscillated a great deal in recent years.

The return on net worth for savings associations ranged between 13.4% and 16.9% from 1950 through 1962 (Chart 44). The rate started to drop in 1963, reaching a low of 4.9% in 1967.

The years 1971 and 1972 were good for the business, with the return on net worth reaching 12.1% in the latter year. However, a reversal occurred in the second half of 1973. The ratio continued its downward slide in 1974 and 1975 but climbed back to 15.4% in 1978. In 1979 the ratio stood at 12.1%, reflecting the more hostile operating environment last year.

Association Personnel

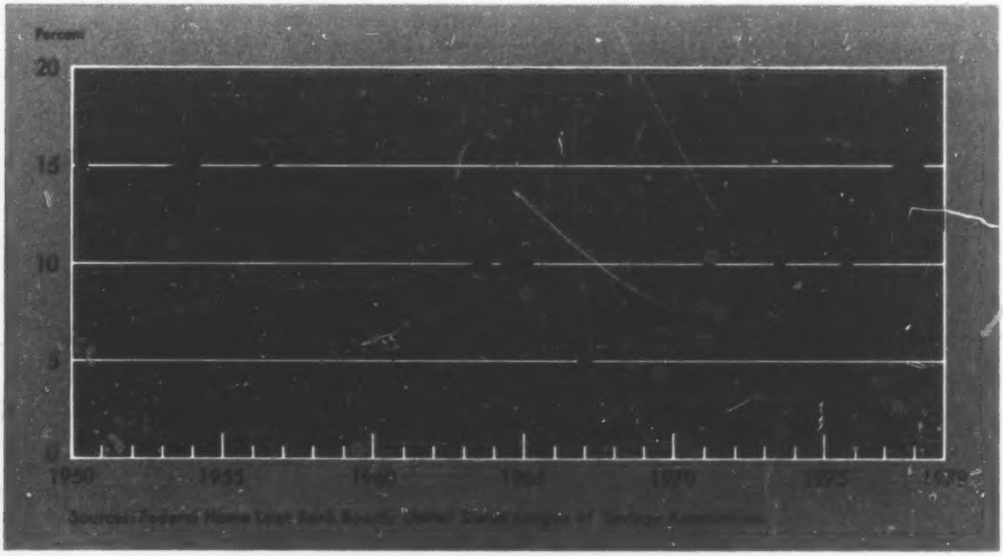
The number of employees on savings and loan payrolls was 245,900 in December 1979, an increase of 18,800 from December 1978. Since 1960 there has been a long-term decline in the number of employees per asset dollar. In 1979, associations had 0.42 employees for each $1 million in assets (Table 81), or $2.4 million in assets for each employee, more than double the $1 million in 1960.

TABLE 81 • Personnel of Savings Associations

Year-end	Number Employed	
	Total	Per $1 Million of Assets
1960	71,700	1.00
1965	97,600	0.75
1966	93,400	0.70
1967	99,200	0.69
1968	100,500	0.66
1969	103,600	0.64
1970	106,000	0.60
1971	114,900	0.56
1972	129,300	0.53
1973	142,800	0.53
1974	153,300	0.52
1975	169,700	0.50
1976	185,800	0.47
1977	208,300	0.45
1978	227,100	0.43
1979*	245,900	0.42

*Preliminary.
Sources: Bureau of Labor Statistics; U.S. League of Savings Associations.

CHART 44 • Percentage Increase in Association Net Worth



Sources: Federal Home Loan Bank Board; United States League of Savings Associations.

FEDERAL GOVERNMENT AGENCIES

The Federal Home Loan Bank System

THE FEDERAL HOME LOAN BANK System was created in the midst of the financial crisis of the 1930s. Congressional hearings on legislation to establish a central credit system for mortgage lending institutions had been held as early as 1919. Public interest in such proposals waned during the building boom of the 1920s but was revived by the problems of the Great Depression.

When the act establishing the System was signed by President Hoover on July 22, 1932, unemployment, business failures and the collapse of real estate values had disrupted the usual home credit procedures. Unemployment and loss of income led to many delinquencies and foreclosures on mortgaged property.

Foreclosure rates were further aggravated by the fact that homeowners were unable to refinance their mortgage loans. Disaster overtook financial institutions, with repossessed property becoming a costly frozen asset, producing staggering losses as the depression deepened.

The problem was accentuated by the illiquidity of the entire economy and its financial institutions. Illiquidity in the home financing field was intensified by the fact that mortgage lending institutions were isolated units; each had to stand alone in meeting the needs of its savers and borrowers. These conditions were instrumental in creating demands for a nationwide credit system for mortgage lending institutions, leading to the enactment of the Federal Home Loan Bank Act.

Purpose of the FHLB System

Although the economic and financial emergency of the 1930s caused Congress and the administration to act, the legislative discussion emphasized that the FHLB System was to be a permanent framework for the nation's home financing institutions.

The fundamental purpose of the System is to provide a central credit facility to supplement the resources of its member institutions.

In performing this basic function, the System serves as a source of secondary liquidity to its members in meeting heavy or unusual withdrawal demands. It also supplements local lending resources in capital-deficient areas by helping to shift funds from capital-surplus areas.

Most important, the System links mortgage lending institutions to the capital markets by issuing consolidated obligations and discount notes in large denominations, which are sold to investors and financial institutions.

Another important activity of the Federal Home Loan Bank System is stabilizing residential construction and financing in periods when monetary or financial conditions create a dearth of mortgage money. An aggressive policy of support can permit savings and loan associations to sustain their lending in periods when high market interest rates place a severe constraint on savings deposit growth.

In the early 1970s the Board developed a wide range of policies and aggressively introduced innovations that greatly expanded its role as an agency for mortgage credit. As a result of these changes, the System assumed the role of an underwriter of interest rate risk. This is the risk that a financial organization assumes in periods when interest rates and yields are changing and the maturities of related assets and liabilities differ.

The FHLB Board

The FHLB System is organized in a manner similar to the Federal Reserve System. It is composed of the Federal Home Loan Bank Board, the 12 regional Banks and member institutions.

The Board has three members, appointed for four-year terms by the President with the consent of the Senate. No more than two Board members may belong to any one political party.

The Board, located in Washington, D.C., governs and regulates the Bank System. It is the chartering and regulatory authority for federal savings and loan associations. It also governs the Federal Savings and Loan Insurance Corporation and the Federal Home Loan Mortgage Corporation, a secondary mortgage market facility.

The Board is an independent agency in the executive branch of the government, and submits an annual report to Congress. Its expenses are all met through assessments on the regional Banks and the Federal Savings and Loan Insurance Corporation, and assessments for examinations. None of the Board's expenses are paid out of federal funds, although Congress reviews them and may set limits on them. The Board's expenditures also are reviewed by the General Accounting Office.

TABLE 82 • FHLB Board Income and Expenses, 1979
(Millions of Dollars)

Item	Amount
INCOME:	
Examination fees and charges	$13.7
FSLIC assessments	19.3
FHLB assessments	7.5
Other income	1.5
Total Income	$42.0
EXPENSES:	
Compensation and benefits	$29.6
Travel and transportation	3.9
Rent, communications, utilities	2.6
Other expenses	5.3
Total Expenses	$41.4

Source: Federal Home Loan Bank Board.

TABLE 83 • Applications Processed by the FHLB Board, 1979

Type	Number
Organization of new federal associations	16
Insurance of accounts (state associations)	43
Federal association facility offices†	804
Mergers	38
Remote service units	5
All others‡	289
Total	1,195

†Includes branch offices; limited, satellite and mobile facilities; and agencies.
‡Includes amendments of charter and bylaws, investment in office buildings, change of location, short-term leaseholds, admittance to and withdrawal from FHLB membership, extension of lending area, sale of loans, conversions, service corporations and other matters.
Source: Federal Home Loan Bank Board.

Income and expenses for 1979, summarized in Table 82, point up the fact that all Board funds originate from sources within the savings and loan business. Nearly 64% of income came from assessments against the Federal Savings and Loan Insurance Corporation and the System's 12 regional Banks.

When the Board reports to Congress, it allocates its expenses on a functional basis. For fiscal 1979 it reported that 62.9% of its expenses were attributable to examination and supervision, 35.5% to the Board and staff offices, and 1.6% to the FSLIC.

In fulfilling its role as a regulatory agency the Board in 1979 made numerous amendments to savings and loan and FHLB System regulations. As part of its efforts to reduce regulatory requirements and simplify the application process for savings associations, the Board adopted many amendments in 1979 that shorten and simplify the rules and regulations.

The Office of Examinations and Supervision was reinstituted in 1979 when the Board consolidated the examinations and supervisory functions previously in the FSLIC and the Office of District Banks.

In its role as a supervisory agency the Board considers applications for federal charters, insurance of accounts, mergers and other matters. A summary of applications processed in 1979 appears in Table 83.

As an agency of the federal government, the FHLBB is subject to the provisions of the Government in the Sunshine Act of 1976. Board meetings are announced at the earliest possible time and, with certain specified exceptions, are open to the public.

Advisory Council

The Federal Home Loan Bank Act established a 24-member statutory body known as the Federal Savings and Loan Advisory Council. Twelve of its members are elected by the regional Bank boards and 12 are appointed by the FHLB Board as public interest directors. The Advisory Council confers with the FHLB Board on issues which affect the savings and loan business.

FHLB Membership

All federally insured savings and loan associations are required by law to belong to the Federal Home Loan Bank System. Membership is open on a voluntary basis to qualified state-chartered savings associations, mutual savings banks and life insurance companies.

At the close of 1979 the FHLB System had 4,250 members: 4,139 savings and loan associations, 109 mutual savings banks and two life insurance companies (Table 84). Association members in 1979 held 98.6% of the assets of the savings and loan business (Table 85).

TABLE 85 • Assets of Association Members of the FHLB System

Year-end	Amount (Millions)	Percent of All Associations
1950	$ 15,516	91.8%
1955	36,147	96.0
1960	69,492	97.2
1965	127,594	98.5
1966	132,014	98.6
1967	141,360	98.5
1968	150,505	98.4
1969	158,723	97.9
1970	172,093	97.7
1971	201,373	97.7
1972	237,816	97.8
1973	266,287	97.9
1974	290,082	98.2
1975	332,445	98.3
1976	385,640	98.4
1977	452,727	98.6
1978	516,202	98.6
1979*	571,200	98.6

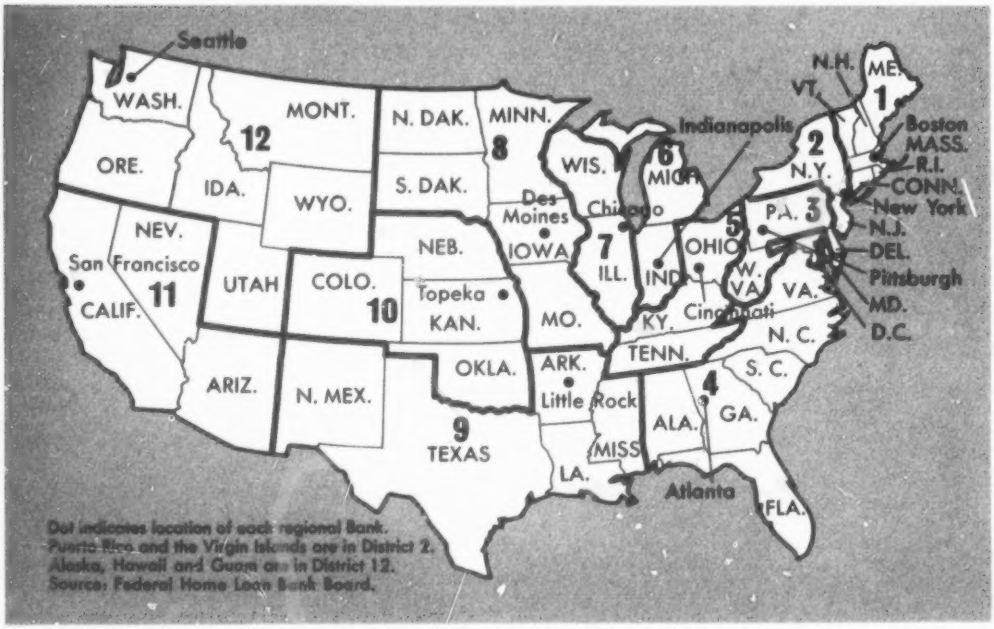
*Preliminary.
Source: Federal Home Loan Bank Board.

TABLE 84 • Membership of the FHLB System at Year-end 1979

	Savings and Loan Associations						
		Insured by FSLIC					
Bank District	Total Number	Federally Chartered	State-chartered	Other State-chartered	Mutual Savings Banks	Life Insurance Companies	Total Membership
Boston	158	69	49	40	69	...	227
New York	308	103	204	1	20	...	328
Pittsburgh	317	138	157	22	3	...	320
Atlanta	676	457	218	1	...	...	676
Cincinnati	532	300	200	32	...	1	533
Indianapolis	215	131	83	1	...	1	216
Chicago	494	179	315	...	3	...	497
Des Moines	268	146	120	2	1	...	269
Little Rock	603	200	403	...	...	...	603
Topeka	221	104	116	1	...	...	221
San Francisco	203	77	126	...	...	...	203
Seattle	144	85	59	...	13	...	157
Total	4,139	1,989	2,050	100	109	2	4,250

Source: Federal Home Loan Bank Board.

CHART 45 • Federal Home Loan Bank Districts


Seattle
WASH.
ORE.
12
MONT.
IDA.
WYO.
N. DAK.
S. DAK.
MINN.
8
Des Moines
IOWA
NEB.
Topeka
KAN.
10
COLO.
UTAH
NEV.
San Francisco
11
CALIF.
ARIZ.
N. MEX.
OKLA.
9
TEXAS
ARK.
Little Rock
LA.
MISS.
MO.
WIS.
Chicago
7
ILL.
6
MICH.
Indianapolis
IND.
5
OHIO
Cincinnati
KY.
TENN.
W. VA.
VA.
N. C.
S. C.
4
GA.
ALA.
Atlanta
FLA.
3
PA.
Pittsburgh
2
N.Y.
New York
N.J.
DEL.
MD.
D.C.
1
ME.
N.H.
VT.
Boston
MASS.
R.I.
CONN.

Dot indicates location of each regional Bank.
Puerto Rico and the Virgin Islands are in District 2.
Alaska, Hawaii and Guam are in District 12.
Source: Federal Home Loan Bank Board.

Regional Banks

The regional Banks carry out the functions of the System in its dealings with member institutions. Although they are instrumentalities of the federal government, they are wholly owned by their member institutions.

Each Bank has its own staff and board of directors. For many years each board had four public interest directors appointed by the FHLB Board for four-year terms. In 1974, legislation increased the number of appointed public interest directors to six. The other directors are elected by member institutions for two-year terms. Member directorships are allocated among the states of the district in proportion to stockholding requirements.

The regional Federal Home Loan Banks serve as central credit banks for member institutions and have no direct contact with the public except through the sale of consolidated obligations. Member institutions transact their business through the Federal Home Loan Bank of their own district (Chart 45).

Advances to member savings associations represent the major function of the Banks as reservoirs of credit.

The major sources of funds for the Banks are their capital stock and retained earnings, the proceeds from the sale of consolidated obligations and discount notes, and deposits of member institutions. The funds derived from these sources are held as cash, invested in Treasury obligations or loaned to members. Also, through inter-Bank deposits, resources from Banks with surplus funds are made available on a limited scale to those Banks experiencing unusual demands for funds.

The regional Banks are not autonomous. Besides governing them and setting System-wide policies, the Federal Home Loan Bank Board reviews their annual budgets and must approve appointments of top personnel.

The regional Banks provide many services to members besides deposit facilities and advances. Among these services are the safekeeping, purchase and sale of securities; and the operation of statistical and research programs that trace relevant economic conditions in the particular Bank district.

Over the past few years the Banks have increased their service role, including a wide range of depository accounts. Several Federal Home Loan Banks have stepped up their advisory and consulting activities.

The movement of the Banks into these fields has not occurred without controversy, however. A United States circuit court ruling in 1977 upheld a district court prohibition on the offering of data processing services by several Federal Home Loan Banks. Data processing companies had protested the Banks' provision of these services as representing a conflict of interest between regulation and involvement in internal "day-to-day operations."

TABLE 86 • Assets of the Federal Home Loan Banks, Year-end 1979

Bank	Assets (Thousands)	Percentage of Total
Boston	$ 1,276,165	2.7%
New York	4,289,269	9.2
Pittsburgh	1,844,502	4.0
Atlanta	5,972,426	12.9
Cincinnati	3,577,097	7.7
Indianapolis ...	1,598,545	3.4
Chicago	3,684,018	7.9
Des Moines ...	3,507,701	7.6
Little Rock	3,543,279	7.6
Topeka	2,821,616	6.1
San Francisco .	11,143,091	24.0
Seattle	3,170,404	6.8
Total	$46,428,113	100.0%

Note: Components may not add to totals due to rounding.
Source: Federal Home Loan Bank Board.

Regional Differences

The Federal Home Loan Bank Board publishes quarterly reports containing detailed balance sheets and income statements for the System as a whole, and for each of the 12 regional Banks. The combined figures have been useful in tracing general trends and yielding insights into the role played by the Federal Home Loan Bank System.

There is a vast difference in the asset size of the regional Banks (Table 86). There also is considerable variation in the composition of their assets and liabilities, and income and costs. These differences are attributable to wide variations in the markets they serve and to varying credit policies adopted by the individual Banks.

Some differences result from such simple factors as the physical size of the district served. The Boston and New York Banks, for example, serve compact areas, while the Topeka and Seattle districts each cover many thousands of square

TABLE 87 • FHLB Capital Stock, Member Deposits and Obligations

Year-end	Government-owned Stock	Member-owned Stock	Member Deposits	Obligations Outstanding†
1950	$56,022,000	$ 182,547,000	$ 224,097,000	$ 561,000,000
1955	None	515,517,000	698,493,000	975,000,000
1960	None	989,315,000	936,189,000	1,266,265,000
1965	None	1,277,263,000	1,042,979,000	5,221,000,000
1966	None	1,369,486,250	1,035,546,000	6,859,000,000
1967	None	1,395,177,850	1,431,994,000	4,060,000,000
1968	None	1,402,770,750	1,382,366,000	4,701,000,000
1969	None	1,478,226,925	1,041,440,000	8,422,000,000
1970	None	1,607,228,300	2,330,840,000	10,181,000,000
1971	None	1,617,553,575	1,788,583,000	6,840,000,000
1972	None	1,756,010,450	1,547,303,000	6,671,000,000
1973	None	2,122,334,730	1,743,732,000	14,449,280,000
1974	None	2,624,306,000	2,393,532,000	19,445,218,000
1975	None	2,704,625,000	2,650,667,000	16,382,931,000
1976	None	2,888,613,000	3,866,591,000	14,620,015,000
1977	None	3,295,089,000	4,143,821,000	16,009,005,000
1978	None	4,120,452,000	6,205,558,000	25,109,454,000
1979	None	5,149,083,000	9,252,636,000	30,371,683,000

†Beginning in 1970, excludes pass-throughs to FHLMC.
Source: Federal Home Loan Bank Board.

miles. Compactness makes some banking services, such as handling demand deposits, quite easy; conversely, large distances can make them more difficult and expensive to administer.

Capital Accounts

The capital stock of the regional Banks owned by their member institutions amounted to $5.1 billion at year-end 1979 (Table 87). The Treasury once held $125 million in Bank stock, but this stock had all been retired by 1951. As of December 31, 1979, paid-in capital stock and retained earnings represented 13.1% of the total resources of the regional Federal Home Loan Banks.

Until 1962, each member institution was required to hold FHLB stock equal to 2% of its total loans, but effective January 1 of that year the requirement was reduced to 1%. Members were not permitted to withdraw any of their excess stock but were not required to make additional purchases until their stock fell below 1% of their total loans outstanding. Also, borrowing members must hold stock at least equal to 1/20 of the principal balance owed their regional Bank.

The Federal Home Loan Bank Act requires 20% of net earnings to be added to the capital accounts of the Banks at the close of each semiannual period.

Deposits of Members

Another source of funds for the Federal Home Loan Banks is the deposits of members. Such deposits totaled $9.3 billion at year-end 1979, up from the $6.2 billion of a year earlier (Table 87).

Members may elect to hold demand or time deposits in their regional Banks. In 1972 the Banks diversified their time deposits by varying maturities and interest rates. Indicative of this change is the fact that Banks and members began to call the new accounts certificates of deposit.

Consolidated Obligations

The Federal Home Loan Bank System's consolidated obligations are used to tap the capital markets for funds to lend to member institutions. They are issued over the signature of the chairman of the Bank Board and marketed by the Office of Finance within the formal structure of the Board.

FHLBB consolidated obligations are purchased by a broad segment of financial institutions, corporations and other investors. They are legal investments for federally supervised fiduciary trusts and public funds and, in most states, for savings banks, insurance companies, trustees and other fiduciaries subject to state supervision.

Legislation in 1950 authorized the secretary of the Treasury to purchase up to $1 billion of FHLBB obligations. The law was silent as to the conditions under which the Treasury might take such action, but the congressional history suggested that the exercising of this power would be limited to emergencies relating to the liquidity of the FHLB System and the savings and loan business.

The Rate Control Act of 1969 provides that the secretary of the Treasury can purchase up to $4 billion of FHLBB obligations. The legislation includes a directive setting forth the conditions under which the Treasury will provide support to the Bank System. Such support is not to be limited to a liquidity crisis; the statutes provide that the Treasury should act whenever the ability of the FHLB System to aid thrift and home financing institutions is substantially impaired by monetary stringency or rapidly rising interest rates.

The potential market for FHLBB issues was expanded in 1966, and the position of the issues in the capital market was substantially changed by legislation which amended the Federal Reserve Act, empowering the Federal Open Market Committee to buy and sell federal agency issues. In 1971 the Federal Reserve announced that it would utilize this power in the conduct of open market operations.

Beginning in November 1975, new issues of the Federal Home Loan Bank Board could be issued via book entries into the Federal Reserve's wire system. Under this entry system, the investor has an account in which his holdings are listed and into which interest payments are deposited. In late 1977, regulations were changed to require that new FHLBB securities, other than short-term discount notes, be issued only in book entry form.

Federal Home Loan Bank System borrowing closely reflects the volume of advances to member associations. The volatility of the savings and loan business in the last several years brought a similar volatility in demands by the FHLB System on the nation's credit markets.

In 1973-74 an unprecedented increase in the demand for advances caused the Board to engage in record levels of financing activity. It offered 21 different issues of consolidated bonds in 1973 and 23 in 1974, raising a record $11.6 billion in the latter year. As a result of the improved deposit flows at member institutions in 1975-76, advances were paid down and the amount of bonds outstanding was reduced.

In 1979 an increase in advances stimulated an increase in System obligations. There were 14 issues totaling $10.8 billion (Table 88). Maturing issues came to $6.4 billion.

In addition to the record level of new consolidated obligations in 1974, in the same year the Board also began to issue short-term notes with maturities of 30 to 270 days. First used as an interim source of funds between bond issues, these notes

TABLE 88 • FHLBB Consolidated Obligations Issued, 1979

Date of Bond Issue	Amount (Millions)	Maturity (Months)	Coupon Rate
Feb. 26 ...	$ 800	27	9.65%
Feb. 26 ...	800	54	9.30
Feb. 26 ...	400	78	9.35
May 25 ...	1,000	21	10.00
May 25 ...	1,000	54	9.50
May 25 ...	400	81	9.55
July 25 ...	700	16	9.30
Aug. 27 ...	900	33	9.20
Aug. 27 ...	900	54	9.05
Oct. 25 ...	750	34	11.25
Oct. 25 ...	550	55	11.00
Nov. 26 ...	1,000	21	12.30
Nov. 26 ...	1,000	42	11.60
Nov. 26 ...	600	84	11.30

Source: Federal Home Loan Bank Board.

TABLE 89 • Selected Operating Factors of the FHLB System

	Average Cost of Obligations†		Weighted Average Rate on Advances		
Month	Outstanding at Month-end	Issued During Month	Outstanding at Month-end	Issued During Month	Number of Borrowers at Month-end
1978:					
January	7.88%	‡	7.68%	7.60%	2,861
February	7.87	7.82%	7.72	7.80	2,820
March	7.87	‡	7.75	7.80	2,815
April	7.87	‡	7.77	7.90	2,839
May	7.91	8.22	7.83	8.10	2,828
June	7.91	‡	7.91	8.04	2,961
July	7.93	8.68	7.99	8.60	2,989
August	7.93	8.47	8.04	8.60	3,040
September	7.96	‡	8.10	8.70	3,080
October	7.96	‡	8.20	8.70	3,110
November	8.03	9.42	8.38	9.90	3,142
December	8.08	9.61	8.56	10.20	3,139
1979:					
January	8.08	‡	8.61	10.30	3,097
February	8.15	9.45	8.59	10.10	3,043
March	8.15	‡	8.62	10.00	2,995
April	8.14	‡	8.69	10.10	2,996
May	8.31	9.71	8.77	10.30	2,988
June	8.31	‡	8.90	10.40	3,003
July	8.35	9.30	8.94	10.00	3,002
August	8.42	9.15	9.01	10.50	3,022
September	8.42	‡	9.22	11.00	3,038
October	8.51	11.14	9.49	12.60	3,076
November	8.84	11.80	9.76	13.50	3,004
December	8.84	‡	9.91	13.40	2,983

†Includes selling costs.
‡No issues.
Source: Federal Home Loan Bank Board.

later provided ongoing access to the short-term money market. At one point during 1974, $1.2 billion in discount notes was outstanding, but this total was quickly reduced to the $300 million to $400 million level during the two following years.

During 1979 the average cost of obligations outstanding ranged from a low of 8.08% in January to a high of 8.84% at year-end (Table 89 and Chart 46).

Lending Policies

The Federal Home Loan Bank System was created for the purpose of extending credit in the form of advances to its mortgage lending member institutions. Advances are subject to a wide range of terms and conditions which are controlled by statute, the policies of the Federal Home Loan Bank Board and the lending policies of the regional Banks.

Until recently, the maximum borrowing limit of any FHLB System member was equal to 50% of its total savings balances, unless higher amounts were specifically authorized by the Board. Within this limit, the regional Banks established a line of credit for each member.

At year-end 1979 the Board proposed regulations to ease these borrowing restrictions. The final regulations adopted in May 1980 apply the 50% limit to assets rather than savings and increase the proportion of total borrowings which may be obtained from sources outside the Bank System.

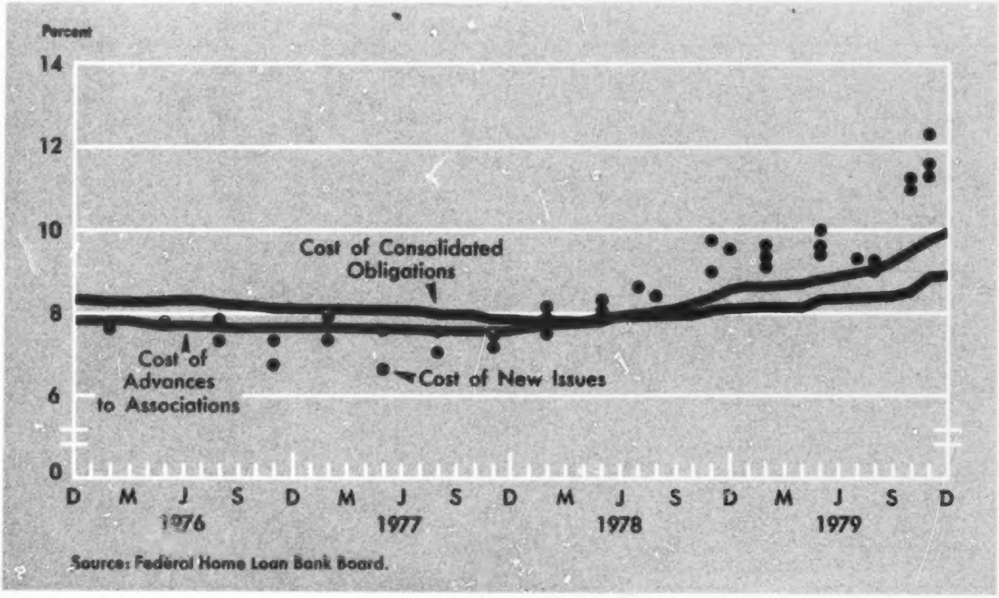
Other Board credit policies are created and implemented from time to time as demanded by the needs of savings associations and the housing market, or as re-

TABLE 90 • Weighted Rate on Advances, by FHLB District, Year-end 1978 and 1979

Bank	1978	1979
Boston	8.47%	9.46%
New York	8.61	10.01
Pittsburgh	9.09	10.48
Atlanta	8.52	9.85
Cincinnati	8.26	9.41
Indianapolis	8.41	9.55
Chicago	8.40	9.75
Des Moines	8.35	9.70
Little Rock	8.44	9.56
Topeka	7.80	9.20
San Francisco	8.89	10.20
Seattle	8.54	10.24

Source: Federal Home Loan Bank Board.

CHART 46 • Average Interest Rates on FHLB Advances, Consolidated Obligations and New Issues



Source: Federal Home Loan Bank Board.

quired by general economic conditions.

In June 1978 the Board announced the establishment of the Community Investment Fund to enhance home improvement and construction in older, or mature, neighborhoods. The $10 billion fund provides $2 billion in advances annually for five years at rates 50 basis points below the market rate. The funds are advanced through the regional Federal Home Loan Banks to local lenders that are supporting community revitalization projects.

One element of the regular advance plans subject to frequent change is the interest rate. Last year, the System-wide weighted average rate on new advances varied from a low of 10.00% to a high of 13.50% (Table 89).

Since 1970 the Board has favored a decentralized approach to the formation of policy on advances. The regional Banks follow individual policies designed to meet the needs of their member institutions and home financing demands in their districts. The nature of commitments, maturities and interest rates charged can vary widely from district to district.

One indication of diversity in policy is the difference in the weighted rates on advances outstanding at the 12 Banks (Table 90). At year-end 1979 there was a 128 basis point spread between the 10.48% rate at the Pittsburgh Bank and the 9.20% rate at the Topeka Bank. For the System as a whole the rate was 9.92%.

1979 Trends

Federal Home Loan Bank advances to member institutions grew substantially in 1979. At year-end, advances outstanding stood at $41.8 billion, up $9.2 billion from the $32.7 billion outstanding at the close of 1978 (Table 91).

Savings and loan associations accounted for $40.4 billion of the 1979 total (Chart 47). Association borrowing from the FHLB System rose throughout most of the year. There was a net increase of $8.5 billion over the course of 1979.

The growth in advances outstanding in 1979 was part of a relatively large increase in the total borrowings of associations. Non-deposit sources of funds were apparently turned to as associations kept up a high rate of mortgage lending despite a slowing in net savings receipts.

Dividend Variations

The effect of differences in regional Bank credit policies, cost of their out-

TABLE 91 • FHLB Lending Activity

Year	Advances (Millions) Made	Repaid	Outstanding at Year-end	Net Change	Number of Borrowers at Year-end
1950	$ 675	$ 292	$ 816	$ 383	2,279
1955	1,252	702	1,417	549	2,408
1960	1,943	2,097	1,981	— 154	2,371
1965	5,007	4,335	5,997	672	2,857
1966	3,804	2,866	6,935	938	2,580
1967	1,527	4,076	4,386	— 2,549	1,956
1968	2,734	1,861	5,259	873	2,193
1969	5,531	1,501	9,289	4,030	2,782
1970	3,255	1,930	10,615	1,326	2,391
1971	2,714	5,392	7,936	— 2,678	2,023
1972	4,792	4,750	7,979	42	2,104
1973	10,013	2,845	15,147	7,168	2,515
1974	12,763	6,106	21,804	6,657	2,607
1975	5,468	9,425	17,845	— 3,957	2,542
1976	8,114	10,097	15,862	— 1,983	2,547
1977	13,756	9,445	20,173	4,311	2,820
1978	25,297	12,800	32,670	12,497	3,139
1979	29,166	19,998	41,838	9,168	2,983

Note: Components may not add to totals due to rounding.
Source: Federal Home Loan Bank Board.

standing obligations and the return on their investments is reflected in the variations in their dividend rates. Most of the Banks increased the dividends on their capital stock in 1979, with the rates paid varying from a low of 5.00% in the Boston district to a high of 12.89% in the Chicago district (Table 92).

To permit the Banks to pay a strong dividend in 1979, the Board waived several dividend policy requirements. This enabled the Banks to pay out $187 million more in dividends in 1979 than in 1978, bringing the Federal Home Loan Bank dividends paid last year to a total of $430.9 million.

A new item called the dividend stabilization reserve appeared in the balance sheets of the regional Banks in 1978. This reserve was established to stabilize dividend payments in years when earnings might be depressed.

FHLMC Operations

In 1970 the Board established the Federal Home Loan Mortgage Corporation, the secondary market facility authorized by the Emergency Home Finance Act. As a secondary market facility, it is empowered to buy and sell FHA and VA loans and, more importantly, participations and conventional loans. At year-end 1979, FHLMC's loan portfolio totaled $4.1 billion.

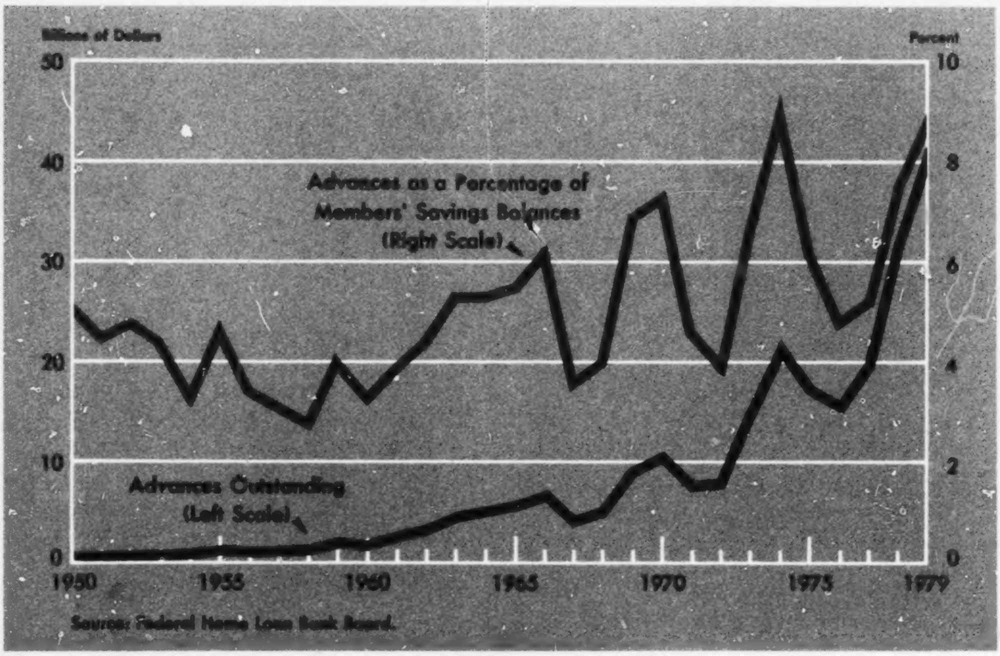
The role of the Federal Home Loan Mortgage Corporation in the nation's housing and mortgage lending markets is discussed more fully in the final chapter of this book.

TABLE 92 • Dividend Rates Paid, by FHLB District, 1978 and 1979

Bank	1978	1979
Boston	6.00%	5.00%
New York	6.21	9.25
Pittsburgh	6.38	11.50
Atlanta	6.00	9.00
Cincinnati	6.54	8.00
Indianapolis	6.43	10.00
Chicago	6.58	12.89
Des Moines	6.64	9.38
Little Rock	6.80	9.00
Topeka	6.50	7.30
San Francisco	6.63	9.50
Seattle	6.50	9.50

Source: Federal Home Loan Bank Board.

CHART 47 • FHLB Advances to Associations, Outstanding at Year-end



Source: Federal Home Loan Bank Board.

TABLE 93 • FHLB Combined Statement of Condition, 1978-1979

(Thousands of Dollars)

Item	December 31, 1979	December 31, 1978
ASSETS:		
Cash	$ 250,879	$ 201,148
Investments	3,693,364	3,414,374
Advances	41,838,114	32,670,123
Other assets	645,756	481,272
Total Assets	$46,428,113	$36,766,917
LIABILITIES:		
Members' time deposits	$ 8,081,730	$ 5,163,084
Members' demand deposits	1,170,906	1,042,474
Total Deposits	$ 9,252,636	$ 6,205,558
Consolidated obligations	30,371,683	25,109,454
Other liabilities	711,886	495,241
Total Liabilities	$40,336,205	$31,810,253
CAPITAL:		
Capital stock—all member-owned	$ 5,149,083	$ 4,120,452
Legal reserve	603,107	495,601
Dividend stabilization reserve	60,073	27,976
Undivided profits	279,645	312,635
Total Capital	$ 6,091,908	$ 4,956,664
TOTAL LIABILITIES AND CAPITAL	$46,428,113	$36,766,917

Source: Federal Home Loan Bank Board.

TABLE 94 • FHLB Combined Operating Statement, 1978-1979

(Thousands of Dollars)

Item	Calendar Year 1979	Calendar Year 1978
EARNED INCOME:		
Interest on advances	$3,224,849	$2,036,509
Interest on securities	481,534	320,767
Miscellaneous	31,513	57,968
Total Earned Income	$3,737,896	$2,415,244
EXPENSES:		
Compensation and benefit costs	$ 27,580	$ 28,797
Administrative (including travel)	18,326	22,319
Interest and concessions on consolidated obligations	2,309,939	1,581,283
Interest on deposits	832,076	370,737
FHLB Board assessments	9,516	9,371
Other expenses	2,921	3,023
Total Expenses	$3,200,358	$2,015,530
NET INCOME	$ 537,538	$ 399,714
ALLOCATION OF NET INCOME:		
Dividends on stock	$ 430,926	$ 243,918
Legal reserve	107,506	79,943
Dividend stabilization reserve	32,097	27,976
Undivided profits	(32,991)	47,877

Source: Federal Home Loan Bank Board.

Federal Savings and Loan Insurance Corporation

THE FEDERAL SAVINGS and Loan Insurance Corporation is an instrumentality of the federal government, created by Congress to insure savings accounts at savings and loan associations.

The FSLIC was established in 1934, the year in which deposits at commercial banks and mutual savings banks were first insured by the Federal Deposit Insurance Corporation. The FSLIC and the FDIC are permanent government corporations similar in structure and purpose. Effective April 1, 1980, both insure accounts to $100,000.

Coverage for IRA and Keogh accounts is also $100,000. Additionally, the deposits of pension and other trusteed personnel benefit plans have specific insurance coverage. The individual beneficiaries of plans with funds deposited in FSLIC-insured associations now have their combined vested and nonvested interests insured to the maximum $100,000 amount.

Insured accounts may be held by individuals, joint tenants, trustees, estates, partnerships, corporations, voluntary associations and public units.

Resources of the Corporation

At year-end 1979 the FSLIC had total assets of $5.9 billion. Liquid assets of the Corporation increased over the course of the year by $485 million, or 9.3%, reaching $5.7 billion at year-end. These liquid assets, mainly U.S. government securities, amounted to 96.3% of total Corporation resources.

The Corporation may borrow up to $750 million from the U.S. Treasury. It also has the power to make additional premium assessments against its members to cover its losses and expenses, and it can call upon its members for deposits equal to 1% of their total savings. However, the Corporation never has had occasion to tap any of these sources for additional funds.

The FSLIC has in the net worth accounts of its member institutions another major line of defense against losses. At year-end 1979 this cushion was $31.7 billion, or 6.9% of the total savings deposits of insured savings associations. Insured associations are required by the FSLIC to hold specified levels of reserves and net worth as a protection against losses. Further details of FSLIC reserve requirements appear in the chapter on savings and loan operations.

Insurance Reserves

The very rapid growth of insured associations in the 1950s caused the ratio of the FSLIC's reserves to its insured liability to decline to a very low 0.62%. Legislation in 1961 remedied this situation by requiring insured institutions to prepay premiums and the Corporation to establish a secondary reserve. This legislative approach brought about a sudden sharp rise in the insurance reserves and a recovery of the reserve ratio. In 1975 a phase-out program for the secondary reserve was begun.

The dollar amount of reserves grew 15-fold in the period from 1960 to 1979 (Table 95 and Chart 48). During 1979 they climbed $520 million, to a total of $5.8 billion at year-end. These reserves represented 99% of the liabilities of the Federal Savings and Loan Insurance Corporation.

Insurance Premiums

Current statutes provide for two types of FSLIC insurance premiums: the regular premium and the additional premium. The regular premium, paid annually, is equal to 1/12 of 1% of all savings accounts at FSLIC member associations. The Corporation also may levy an additional premium up to the full amount of all its losses and expenses, although individual assessments in any one year may not exceed an amount equal to 1/8 of 1% of the savings of the member institution. In fact, the Federal Savings and Loan Insurance Corporation never has charged its member associations any additional premiums.

In order to increase FSLIC reserves more rapidly than the regular premium alone could do, beginning in 1962, associations were required to make an annual prepayment of the regular premium equal to 2% of the increase in withdrawable savings accounts for the preceding year, less an amount equal to any required purchases of Federal Home Loan Bank stock. These prepayments were credited directly to the secondary reserve and were not included in FSLIC income. At the close of each calendar year, the FSLIC determines the yield on the investment of its secondary reserve funds and credits a pro-rata amount to the prepaid account of each insured savings and loan association.

TABLE 95 • FSLIC Reserves

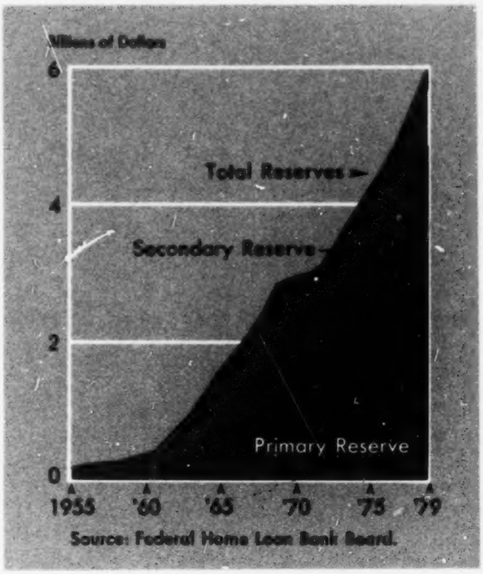
Year-end	Total Reserves	Percentage of Insured Liability†
1960	$ 380,935,564	0.618%
1965	1,537,140,992	1.353
1966	1,803,957,053	1.526
1967	2,049,121,630	1.622
1968	2,409,440,391	1.813
1969	2,801,327,950	2.138
1970	2,902,841,514	2.048
1971	2,986,858,767	1.767
1972	3,142,367,689	1.564
1973	3,453,504,521	1.563
1974	3,791,425,579	1.602
1975	4,119,622,359	1.478
1976	4,480,117,424	1.365
1977	4,872,768,476	1.286
1978	5,328,249,001	1.262
1979	5,847,810,619	1.269

---

†Reserves as a percentage of the total amount of all accounts of insured members of all insured institutions.

Source: Federal Home Loan Bank Board.

CHART 48 • FSLIC Reserves at Year-end



Source: Federal Home Loan Bank Board.

The statutes provide for the complete suspension of regular premium payments whenever the primary reserve alone reaches or exceeds 2% of all accounts at insured associations. All associations, however, are required to pay premiums for at least 20 years.

The provision of the statutes for suspension of prepayments became effective at year-end 1969, when the aggregate reserve ratio of the FSLIC totaled 2.138% (Table 95). Thus, the Federal Home Loan Bank Board announced at that time that prepayments to the secondary reserve would be suspended and that member institutions' regular insurance premium would be paid by a transfer from the secondary reserve.

At the end of 1972 the ratio of the Corporation's reserves declined to 1.564% of savings, largely as a result of the huge inflow of savings to insured associations. This called for the resumption of cash premium payments and prepayments to the Federal Savings and Loan Insurance Corporation.

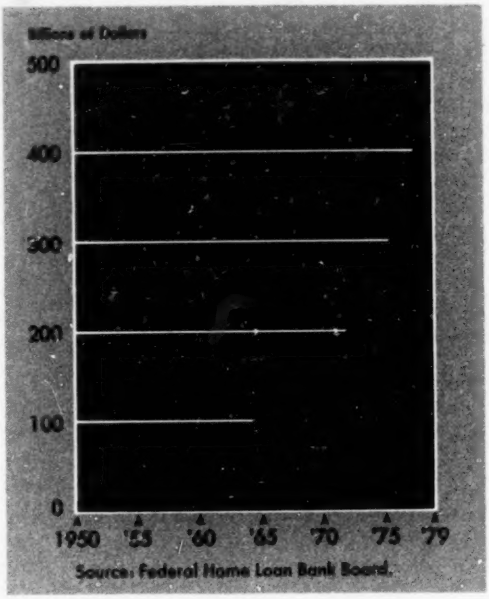
In August of 1973, Congress passed legislation discontinuing prepayments to the secondary reserve in order to eliminate the stop-start pattern of FSLIC premium payments. Furthermore, the Depository Institutions Act of October 1974 provided for the complete phasing out of the Corporation's secondary reserve over a 10-year period beginning in May 1975.

Examinations

In 1978 the FSLIC created a Department of Examinations and assumed responsibility for the examination functions formerly performed by a Bank Board office. Although examinations are made to safeguard the interests of savers, borrowers and the FSLIC, the recent proliferation of consumer-oriented legislation requires that associations also be examined for compliance with consumer protection regulations. Since this function had nothing to do with insurance risks, in late 1979 the Federal Home Loan Bank Board again assumed responsibility for the examination of insured savings and loan institutions.

Insured Institutions

CHART 49 • Savings Held by Insured Associations at Year-end



Source: Federal Home Loan Bank Board.

The number of insured savings and loan associations at year-end 1979 was 4,039 (Table 96). Members of the FSLIC hold 98.1% of the total assets of the business. FSLIC member institutions include all 1,989 federally chartered associations

TABLE 96 • FSLIC Membership and Member Assets

Year-end	Number of Insured Associations			Assets of Insured Associations	
	Total	Federally Chartered	State-chartered	Millions of Dollars	Percent of All Association Assets
1950	2,860	1,526	1,334	$ 13,691	81.0%
1955	3,544	1,683	1,861	34,198	90.8
1960	4,098	1,873	2,225	67,430	94.3
1965	4,508	2,011	2,497	124,576	96.1
1966	4,510	2,051	2,459	129,045	96.4
1967	4,487	2,056	2,431	138,489	96.5
1968	4,470	2,063	2,407	147,736	96.6
1969	4,438	2,071	2,367	156,788	96.7
1970	4,365	2,067	2,298	170,645	96.9
1971	4,271	2,049	2,222	199,984	97.1
1972	4,191	2,044	2,147	236,349	97.2
1973	4,163	2,040	2,123	264,797	97.4
1974	4,141	2,060	2,081	288,223	97.5
1975	4,078	2,048	2,030	330,259	97.6
1976	4,044	2,019	2,025	383,172	97.8
1977	4,065	2,012	2,053	449,998	98.0
1978	4,053	2,000	2,053	513,310	98.0
1979	4,039	1,989	2,050	568,107	98.1

Source: Federal Home Loan Bank Board.

and 2,050 state-chartered associations. The gradual decline in the number of insured associations since the 1966 peak of 4,510 is largely attributable to mergers. At year-end 1979, member savings and loan associations held $460.7 billion in savings (Chart 49).

Within the framework of the law, the Corporation has established eligibility requirements that must be met by all applicants for FSLIC insurance. Once insured, member savings and loan associations are subject to annual examination to ensure their compliance with a complex body of regulations that protect both savers and borrowers.

Income and Disbursements

The income statement of the Federal Savings and Loan Insurance Corporation reveals that earnings on investments rank first as a source of income, followed by insurance premiums paid by member institutions (Table 98).

Disbursements fall into five classifications: (1) administrative, (2) payments for services rendered the Corporation by the Federal Home Loan Bank Board, (3) liquidation expenses, (4) credits to secondary reserves of interest income from the investment of those reserves, and (5) provisions for losses.

Insurance Settlements

In protecting the funds of savers the Corporation has a wide choice of remedies when a member institution's financial position becomes uncertain. It can make loans, grant contributions or purchase assets, or use any combination of these. These actions help put the member institution back on a firm footing, or allow time for a merger or orderly liquidation to be arranged.

The merger of a problem institution into one that is financially and managerially strong is the rescue technique most frequently used by the FSLIC. The Corporation facilitates this operation by indemnifying the resulting association for certain agreed-upon costs and losses associated with the acquisition of the problem institution.

Legislative changes in 1978 expanded the FSLIC's default prevention authority, allowing the Corporation to employ any of the above remedies even when an association is in default. Further, if sufficient

TABLE 97 • FSLIC Comparative Statement of Condition, 1978-1979

(Thousands of Dollars)

Item	December 31, 1979	December 31, 1978
ASSETS:		
Cash	$ 609	$ 115
Receivables	16,563	12,972
Investments at amortized cost	5,689,191	5,204,934
Accrued interest on investments	94,844	86,618
Assets acquired from insured institutions, net	37,108	42,037
Loans to insured institutions and accrued interest, net	68,784	22,405
Deferred charges and other assets	258	108
Total Assets	$5,907,358	$5,369,187
LIABILITIES AND RESERVES:		
Miscellaneous accrued and other liabilities	$ 10,038	$ 5,686
Allowance for estimated losses (contribution agreements)	44,075	30,511
Deferred credits	5,454	4,741
Primary reserve	4,890,964	4,227,765
Secondary reserve	956,827	1,100,484
Total Liabilities and Reserves	$5,907,358	$5,369,187

Note: Components may not add to totals due to rounding.
Source: Federal Home Loan Bank Board.

BEST AVAILABLE COPY

community need for the services of a lending institution can be established, the Corporation can support a failing association without regard to the cost of liquidation, which had been the limit since the establishment of the Federal Savings and Loan Insurance Corporation in 1934.

The type of actions taken by the Corporation over its history and the number of savers protected are shown in Table 99. In its 45-year history the Federal Savings and Loan Insurance Corporation has rendered assistance to 124 insured savings and loan institutions, resulting in the protection of the funds of 1,151,910 savers.

TABLE 98 • FSLIC Comparative Operating Statement, 1978-1979

(Thousands of Dollars)

Item	Calendar Year 1979	Calendar Year 1978
INCOME:		
Fees from examinations of savings and loan associations	$ [illegible]4,416	$ 0
Insurance premiums	336,965	331,113
Interest on investments	423,179	358,552
Interest on loans to insured institutions	1,803	732
Interest on subrogated accounts	617	16,696
Income on assets acquired from insured institutions	2,436	2,001
Miscellaneous	6,006	679
Total Income	$805,423	$709,773
EXPENSES:		
Administrative expenses	$ 8,597	$ 765
Services rendered by FHLBB	19,257	21,528
Liquidation and other miscellaneous expenses	3,128	23,574
Return on premium prepayments	72,530	79,348
Net provision for losses	38,694	9,791
Total Expenses	$142,205	$135,006
NET INCOME	$663,218	$574,767

Note: Components may not add to totals due to rounding.
Source: Federal Home Loan Bank Board.

TABLE 99 • Summary of FSLIC Insurance Settlement Cases

(Cumulative through December 31, 1979)

Method	Number of Cases	Number of Savers Protected
Acquisition of assets	13	75,782
Acquisition of assets and contribution	18	119,925
Contribution	70	645,670
Contribution and loan	3	14,440
Contribution, loan and acquisition of assets	1	14,542
Loan	4	137,383
Loan and acquisition of assets	1	26,137
Purchase and assumption	1	27,457
Receivership and acquisition of assets	3	40,107
Receivership	10	50,467
Total	124	1,151,910

Source: Federal Home Loan Bank Board.

Other Government Agencies

UNTIL THE LATE 1960s an adequate summary of federal agency activity in the housing and mortgage markets included only two topics: public housing programs, and the role of the Federal Housing Administration and the Veterans Administration in protecting private lenders against losses on loans. The picture is not that simple now.

A new phase in federal participation in housing and residential finance began in 1968, when Congress created important new assistance programs for low- and moderate-income families, covering both owner-occupied and rental housing. In addition, the Federal National Mortgage Association was reorganized and a new federal housing credit agency, the Government National Mortgage Association, was created.

These assistance programs, along with newer programs with similar objectives, make up a substantial portion of federal aid for low- and moderate-income housing.

The reorganization of FNMA and the creation of GNMA, as well as the establishment of the Federal Home Loan Mortgage Corporation in 1970, were designed to increase the liquidity and marketability of mortgage loans. These three agencies are now major factors in the residential credit market. Together with the Federal Home Loan Bank System, they in essence provide a government-supervised link between the nation's capital market and local mortgage lenders.

At the same time, state governments have significantly escalated their role in subsidizing housing through the formation of state housing agencies. The activities of these agencies receive an implicit federal subsidy from the income-tax-exempt status given to the interest paid on the securities they issue.

FEDERAL HOUSING ADMINISTRATION

The Federal Housing Administration, created by the National Housing Act of 1934, is a federal agency within the Department of Housing and Urban Development. The FHA operates a variety of loan insurance and subsidy programs designed to help stabilize the home mortgage market, improve housing construction standards and facilitate sound financing on reasonable terms.

In 1979 a record $22.4 billion in FHA-insured loans were made (Table 100). Home mortgages alone accounted for $18.2 billion. Most months of the year the FHA insured 30,000 to 40,000 existing homes and 4,000 to 8,000 new homes (Chart 50).

The secretary of Housing and Urban Development sets the interest rate ceilings on FHA loans at a level required to meet market conditions. At the end of 1979, both apartment and one-family home ceilings were at record highs of 11% and 11.5%, respectively (Table 101). Rates continued to rise in early 1980 but dropped abruptly during the second quarter.

Except in the case of interest-subsidized loans, the FHA borrower pays an annual insurance premium of ½ of 1% of the average principal outstanding over the year. This premium is over and above the stated interest rate on the loan.

TABLE 100 • FHA-insured Mortgage and Other Loans Made

(Millions of Dollars)

Year	Total	Home Mortgages	Project Mortgages	Property Improvement Loans
1950	$ 4,343	$ 2,492	$1,157	$ 694
1955	3,807	3,085	76	646
1960	6,293	4,601	711	982
1965	8,689	7,465	591	634
1966	7,320	6,095	583	641
1967	7,150	5,885	642	623
1968	8,275	6,496	1,123	656
1969	9,129	7,121	1,316	693
1970	11,982	8,114	3,251	617
1971	14,689	10,375	3,641	674
1972	12,320	8,067	3,448	805
1973	7,591	4,473	2,286	832
1974	5,915	3,934	1,225	756
1975	7,863	6,166	976	721
1976	9,619	6,362	2,315	942
1977	12,808	8,841	2,818	1,149
1978	15,534	11,140	3,014	1,380
1979	22,393	18,167	2,678	1,548

Note: Components may not add to totals due to rounding.
Source: Federal Housing Administration.

Section 203 Loans

Section 203 of the National Housing Act of 1934, as amended, provides for FHA insurance of single-family home loans. The program encourages private lenders to extend homeownership opportunities by making loans with maturities up to 30 and 35 years, and low downpayments. The formula for downpayments is: 3% of the first $25,000 and 5% of the remainder, up to a maximum of $67,500 on a single-family property. Section 203 loans provide even more liberal terms for veterans.

Section 244 Coinsurance

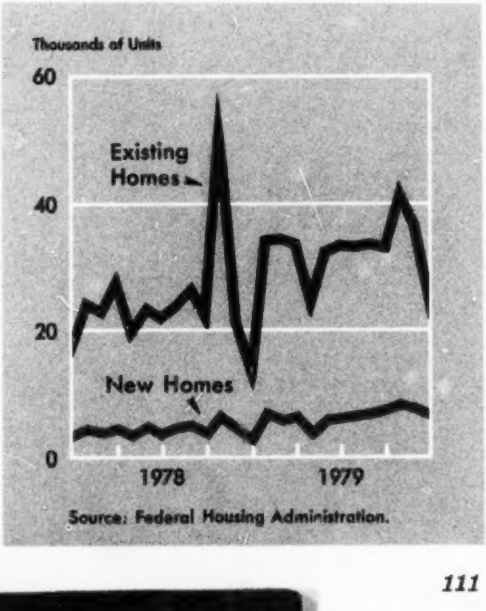
Section 244 expedites FHA-insured loan processing by allowing private lenders to make their own property appraisals and borrower credit approvals.

In return, the lender must assume 10% of the risk of loss during the first five years of the loan; thereafter, the loan is fully insured. Also, if foreclosure occurs during the first five years, the lender must dispose of the property. During the first five years of the loan, FHA credits a portion of the annual insurance premium to a reserve account. When the coinsurance ends, these funds are remitted to the lender, less the lender's share of any losses.

Section 245 Graduated Payment Loans

The FHA graduated payment mortgage plan provides for very low, gradually increasing monthly payments during

CHART 50 • FHA Home Mortgage Insurance Written



Source: Federal Housing Administration.

the early years of a home loan. It is designed for younger, first-time home buyers, presumably with rising future earning potential. In 1979 this program was expanded to include more low-income buyers.

Depending on the plan selected, the monthly payment increases at 2%, 3%, 5% or 7.5% per year. At the end of the five- or 10-year graduated payment period, the borrower begins making regular payments that continue for the remainder of the life of the loan. Because payments in the early years are less than the interest that is accruing, the principal balance on the loan increases at first.

TABLE 101 • FHA Interest Rate Ceilings on Home Mortgages

Effective Date	One-family Homes†	Apartments†
November 27, 1934 ..	5 %	
August 1, 1939	4½	
April 24, 1950	4¼	
May 2, 1953	4½	
December 4, 1956	5	
August 6, 1957	5¼	
September 24, 1959 ..	5¾	
February 2, 1961	5½	
May 29, 1961	5¼	
February 7, 1966	5½	
April 2, 1966	5¾	
October 3, 1966	6	
May 7, 1968	6¾	
January 24, 1969	7½	
January 5, 1970	8½	
December 2, 1970	8	
January 13, 1971	7½	
February 18, 1971	7	
August 10, 1973	7¾	
August 25, 1973	8½	
January 22, 1974	8¼	
April 15, 1974	8½	
May 13, 1974	8¾	
July 8, 1974	9	
August 14, 1974	9½	
November 25, 1974 ..	9	
January 21, 1975	8½	
March 3, 1975	8	
April 28, 1975	8½	
September 2, 1975 ...	9	
January 5, 1976	8¾%	9%
March 30, 1976	8½	9
October 18, 1976	8	9
May 31, 1977	8½	9
February 28, 1978	8¾	9
May 23, 1978	9	9
June 29, 1978	9½	9½
April 23, 1979	10	9½
September 26, 1979 ..	10½	9½
October 1, 1979	10½	10
October 26, 1979	11½	11

†Does not include insurance premium charges.
Source: Federal Housing Administration.

The FHA graduated payment mortgage plan may be used with either Section 203 loans or condominium loans.

Subsidy Programs

In recent years the Federal Housing Administration has also become the administrator of interest rate subsidy and rent supplement programs.

The early subsidy programs have undergone major revisions since their first appearance in 1965. A number of abuses in the programs came to light in 1972, ranging from falsification of credit reports and appraisals to shoddy construction techniques. As a result, a moratorium was imposed in 1973. Subsequent studies found the programs to be sound, and they were reintroduced in 1975 with modifications.

The Section 235 program, created by the Housing and Urban Development Act of 1968 and reactivated in 1975, combines insurance and interest rate subsidies for new owner-occupied homes.

The subsidy equals the balance of the monthly payment remaining after applying 20% of the borrower's adjusted income, but in no case can it reduce the

TABLE 102 • Units Started under HUD Interest Subsidy Programs

Year	Section 235 Homeowner Program	Section 236 Rental Program	Total
1970	116,073	105,160	221,233
1971	133,222	107,604	240,826
1972	82,807	80,688	163,495
1973	26,402	47,775	74,177
1974	3,222	20,502†	23,724
1975	454	14,284†	14,738
1976	7,054	13,858†	20,912
1977	6,787	3,145†	9,932
1978	7,382	1,557†	8,939
1979	8,199	185†	8,384

†Commitments made before program suspension.
Source: Department of Housing and Urban Development.

borrower's monthly payment below what it would be if the mortgage carried a 4% annual interest rate. The program also requires a 3% downpayment and excludes the purchase of existing homes.

Although 8,199 units were started under the program in 1979, these starts were only a small fraction of the number begun during the 1970-71 peak (Table 102).

Section 8 of the 1974 Housing Act introduced a subsidy program to replace the Section 236 program of the 1968 act. Apartments are rented to low-income families at rates between 15% and 25% of their adjusted income, and the difference between the family's rent and a contractual rent set by HUD is made up by a payment to the apartment owner. Contractual rents are based on "fair market rents" and are adjusted annually.

The rent adjustments allow increases in operating and maintenance costs to be covered. This feature of the Section 8 program is a major improvement over the Section 236 arrangement, under which payments to owners were tied to mortgage interest costs and were inflexible. Only 185 payouts on existing commitments under the earlier program were made during 1979.

Housing for the Section 8 program may be either existing or new, and financing may be conventional, FHA-insured or assisted by a state housing agency. The rent differential payments are guaranteed for 30 years in the case of private and Federal Housing Administration financing, and 40 years for state agency financing. This guarantee can be used as mortgage loan collateral by the borrower.

VETERANS ADMINISTRATION

The Servicemen's Readjustment Act of 1944 offered a wide variety of benefits for returning veterans. The loan guarantee program of the Veterans Administration was of special importance.

Amendments to the 1944 act have extended benefits to more recent veterans, expanded the program to include mobile homes and condominiums, raised the maximum guarantee to $25,000 for one-family homes, and restored eligibility to veterans who already have used their entitlement once.

The interest rate on VA-guaranteed single-family mortgages is the same as that on FHA loans. Federal legislation in 1979 also exempted VA loans from state usury ceilings.

The volume of VA loans has fluctuated widely in the 35-year existence of the program. VA lending in 1979 was $16.7 billion, up $2.2 billion from 1978 (Table 103). The total number of home mortgage loans guaranteed by the Veterans Administration during 1979 was 356,000.

TABLE 103 • VA-guaranteed Home Mortgage Loans Made

(Dollar Amounts in Millions)

Year	Number	Amount
1950	497,000	$ 3,073
1955	649,000	7,271
1960	145,000	1,985
1965	164,000	2,652
1966	157,000	2,600
1967	201,000	3,405
1968	211,000	3,774
1969	214,000	4,072
1970	168,000	3,440
1971	282,000	5,961
1972	370,000	8,293
1973	316,000	7,467
1974	310,000	8,206
1975	299,000	8,884
1976	329,000	10,419
1977	389,000	13,901
1978	365,000	14,447
1979	356,000	16,674

Source: Veterans Administration.

FEDERAL HOME LOAN MORTGAGE CORPORATION

The Federal Home Loan Mortgage Corporation was created by the Emergency Home Finance Act of 1970 to promote the flow of capital into the housing markets by establishing an active secondary market in mortgages. The corporation is under the direction of the Federal Home Loan Bank Board, and may by law deal only with government-supervised lenders—in essence, depository institutions—and with mortgage bankers that meet FHLBB-specified criteria.

In periods of tight credit or regional imbalances in the mortgage money supply, FHLMC provides additional funds to lenders by purchasing existing mortgages from their portfolios. The corporation's programs cover conventional whole mortgage loans, participations in conventional loans, and FHA and VA loans, on both an over-the-counter and a forward commitment basis.

During 1979, FHLMC also developed documents and underwriting criteria to

TABLE 104 • FHLMC Statement of Condition

Item	December 31, 1979
ASSETS:	
FHA-insured and VA-guaranteed loans	$1,159,021,000
Participations in conventional loans	2,539,131,000
Conventional loans	353,469,000
Less: Loss reserves and unamortized discount	(57,504,000)
Total Mortgage Loans and Participations	$3,994,117,000
Cash and investments	233,255,000
Accrued interest	36,940,000
Claims against FHA and VA	379,000
Other assets	383,375,000
TOTAL ASSETS	$4,648,066,000
LIABILITIES:	
Notes and bonds	$3,980,839,000
Accrued interest	59,373,000
Accounts payable and other accrued expenses	1,663,000
Principal and interest due to Mortgage Participation Certificate investors	168,551,000
Total Liabilities	$4,210,426,000
CAPITAL:	
Reserve for losses and contingencies	$ 50,000,000
Capital stock	200,000,000
Capital debentures	150,000,000
Retained earnings	37,640,000
Total Capital	$ 437,640,000
TOTAL LIABILITIES AND CAPITAL	$4,648,066,000

Source: Federal Home Loan Mortgage Corporation.

TABLE 105 • Federal Home Loan Mortgage Corporation Activity

(Millions of Dollars)

	Mortgage Transactions		Loan Portfolio (Year-end)		
Year	Purchases	Sales	Total	FHA-VA	Conventional
1970	$ 325	...	$ 325	$ 325	...
1971	778	$ 113	968	821	$ 147
1972	1,297	407	1,788	1,502	286
1973	1,334	409	2,604	1,800	804
1974	2,190	53	4,586	1,961	2,625
1975	1,713	1,521	4,987	1,881	3,106
1976	1,127	1,797	4,269	1,675	2,594
1977	4,124	4,640	3,267	1,450	1,817
1978	6,526	6,426	3,091	1,299	1,792
1979	5,721	4,544	4,052	1,159	2,893

Note: Components may not add to totals due to rounding.
Source: Federal Home Loan Mortgage Corporation.

begin purchasing interests in secured home improvement loan and pledged account mortgage packages.

FHLMC obtains funds to finance its purchases in four major ways: (1) borrowing from the Federal Home Loan Banks; (2) issuing GNMA-guaranteed mortgage-backed bonds; (3) selling mortgage participation certificates on which it guarantees interest and principal; and (4) selling guaranteed mortgage certificates, FHLMC-guaranteed participation securities designed to be attractive to buyers of conventional bonds.

In line with corporation goals, reliance on the first two sources of funds has diminished over time, while the importance of the latter two has increased greatly.

FHLMC purchases in 1979 came to $5.7 billion and sales totaled $4.5 billion (Table 105). At year-end, FHLMC had mortgage holdings of $4.1 billion.

Because of the greater standardization of FHA and VA mortgages, the Federal Home Loan Mortgage Corporation purchased a greater volume of these mortgages in its early years of operation. It always has been the objective of the corporation, however, to concentrate its activities on conventional mortgages. Toward this end, it has carried out extensive work on the standardization of documents and procedures used in the making of conventional loans.

Last year the corporation revised its conventional loan underwriting guidelines to liberalize purchasing policies on loans in older urban areas.

In order to further carry out its role of increasing the liquidity of mortgages, FHLMC in 1974 joined with major financial institution trade organizations to create a private computerized listing service for mortgage loan buyers and sellers.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

The basic function of the Federal National Mortgage Association is to provide a secondary market in residential loans. FNMA fulfills this function by buying, servicing and selling mortgages, using debt issued under its own name as its primary source of funds.

FNMA is the nation's largest purchaser of residential mortgages. It acquired $10.8 billion in 1979, and at year-end held a mortgage loan portfolio of $51.1 billion (Table 106). The organization purchases loans outright under a competitive bidding setup as well as on a forward commitment basis.

FNMA, known in financial circles as Fannie Mae, was chartered as a government corporation in 1938, then rechartered as a federal agency in 1954. The Housing Act of 1968 spun off Fannie Mae from HUD and authorized its establishment as a government-sponsored stockholder-owned corporation.

The new organization was to maintain a secondary market for FHA and VA loans. Its former special assistance and management and liquidation functions were transferred to a new corporation, the Government National Mortgage Association. FNMA powers were extended to conventional mortgage loans in 1970, and involvement in this field began in 1972.

With the extension of Fannie Mae's operations to include conventional mortgages, its purchase powers and attributes became essentially the same as those of FHLMC. FNMA, however, is not limited

TABLE 106 • FNMA Activity

(Millions of Dollars)

Year	Purchases	Sales	Total Loan Portfolio (Year-end)
1955	$ 86	...	$ 86
1960	980	$ 42	2,903
1965	757	46	2,520
1966	2,081	†	4,396
1967	1,400	12	5,522
1968	1,944	...	7,167
1969	4,121	...	10,950
1970	5,078	...	15,502
1971	3,574	336	17,791
1972	3,699	211	19,791
1973	6,127	71	24,175
1974	6,953	4	29,578
1975	4,263	2	31,824
1976	3,606	86	32,904
1977	4,780	67	34,370
1978	12,303	5	43,311
1979	10,806	...	51,091

Note: All data adjusted to exclude special assistance and management and liquidation functions transferred to the Government National Mortgage Association in 1968.

†Less than $500 thousand.

Source: Federal National Mortgage Association.

in the organizations with which it can do business, although historically it has dealt primarily with mortgage bankers.

A further difference between the two lies in the volume of their sales. While FHLMC has sold a substantial amount of mortgages over the last nine years, FNMA's sales have never been large. This raises serious questions about the function of Fannie Mae as a true secondary market operation; many experts view FNMA as a lender with a permanent loan portfolio rather than as a market-making corporation.

Although FNMA is owned by private shareholders, it has a number of ties to the federal government. Five of Fannie Mae's 15 directors are appointed by the President. The secretary of HUD has authority to set the corporation's debt limit and its ratio of debt to capital and also may require the corporation to allocate a portion of its purchases to programs related to national housing goals.

Early in 1979, FNMA announced three new programs to provide financing for rehabilitation and new construction in urban areas, and expanded a year-old program to purchase interests in urban loan pools.

FNMA suspended its forward commitment purchase program entirely for the last three months of last year after the Fed's monetary tightening on October 6.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

The Government National Mortgage Association, often referred to as Ginnie Mae, is a wholly owned corporate instrumentality of the United States government, operating within HUD. The powers and duties of the Government National Mortgage Association are vested in the secretary of the Department of Housing and Urban Development. Within the limitations of law, the secretary determines GNMA's operating policies.

TABLE 107 • GNMA Portfolio, by Function

(Millions of Dollars)

Year-end	Special Assistance Function	Management and Liquidation Function	Total Loan Portfolio
1965	$1,340	$ 953	$2,293
1966	1,470	1,269	2,739
1967	1,742	1,668	3,410
1968	2,303	1,970	4,273
1969	2,937	1,928	4,865
1970	3,401	1,821	5,222
1971	3,648	1,673	5,321
1972	3,824	1,287	5,111
1973	3,576	469	4,045
1974	4,440	409	4,849
1975	6,884	358	7,242
1976	4,102	305	4,407
1977	2,989	260	3,249
1978	2,521	220	2,741
1979	2,404	199	2,603

Source: Government National Mortgage Association.

Special Assistance Function

As part of its special assistance function, Ginnie Mae plays a unique role in the interest rate risk area of mortgage lending. Mortgages typically carry a fixed rate of return, so that when interest rates rise, existing mortgages sell at a discount (at less than their face value). Under its Tandem Programs, GNMA absorbs some of this discount.

The Tandem Programs are so named because GNMA and FNMA work together on loan purchases. Ginnie Mae first issues a commitment to the seller to purchase a mortgage at a fixed price. After acquiring the loan, Ginnie Mae sells it to Fannie Mae at the prevailing

TABLE 108 • GNMA Mortgage-backed Security Program

(Millions of Dollars)

	Pass-through Securities		
Year	Applications Received	Securities Issued	Bonds Sold
1970	$ 1,126	$ 452	$1,315
1971	4,374	2,702	300
1972	3,854	2,662	...
1973	5,529	3,249	...
1974	6,203	4,784	...
1975	10,449	7,366	...
1976	25,394	13,765	...
1977	31,076	16,230	...
1978	35,014	15,359	...
1979	53,820	24,592	...

Source: Government National Mortgage Association.

market price. Ginnie Mae absorbs any discount from the price paid to the seller.

In 1974 a new variation of the Tandem Plan was initiated for conventional mortgages. FNMA or FHLMC, acting as agent for GNMA, issues a commitment to private lenders to purchase conventional below-market-rate mortgages, provided the lower rate is made available to the borrower. When the loans are closed they are delivered to FNMA or FHLMC, with the discount absorbed by GNMA.

Since large amounts of private funds were available for housing in recent years, GNMA greatly reduced its loan purchases. As a result its portfolio declined from $7.2 billion in 1975 to $2.6 billion in 1979 (Table 107).

GNMA-guaranteed Securities

Ginnie Mae also issues guarantees of securities backed by government-insured or guaranteed mortgages. Such mortgage-backed securities are fully guaranteed by the United States government. The mortgages underlying the security are pooled, a covering security is issued and repayments from the pool are used to pay off the security.

There are two basic types of mortgage-backed securities. The pass-through type provides for the monthly payment to the security holder of interest and principal on the underlying mortgages. The bond-type security is a long-term obligation providing for payment of interest semiannually and principal at stated redemption dates. Pass-throughs are more prevalent, since the bond type may be issued only by the federal secondary market agencies.

GNMA supervision of pass-through issuers was intensified in 1977 after certain abuses appeared. It is now required that issuers be FHA-approved institutions with net worth in excess of $100,000. In 1979, security dealers organized to attempt to develop trading standards, while GNMA officials considered adopting their own requirements for security issuers.

In 1976 a record $13.8 billion of GNMA-backed securities were issued, almost double the volume of the previous year (Table 108). In 1977 another record $16.2 billion were issued. The volume was $24.6 billion in 1979, 60.1% more than the previous year's issues.

In October 1975 a futures market in GNMA pass-throughs opened on the Chicago Board of Trade. Here, mortgage investors can competitively trade contracts to buy or sell agreed-upon amounts of GNMA-guaranteed modified pass-through mortgage-backed certificates at a negotiated price at a specified future date.

Mortgage lenders that make future commitments to buy and sell loans and mortgage securities in the secondary market can use the futures market to hedge against loss from unfavorable changes in interest rates during the commitment period. In 1976, federal associations were authorized to participate in the futures market under certain conditions.

FARMERS HOME ADMINISTRATION

The Farmers Home Administration, an agency of the U.S. Department of Agriculture, administers farm credit and rural housing programs; the latter provide direct loans, insured loans and grants.

To qualify for a loan to build or buy a home, a family must show that it has not been able to obtain credit from private sources. The real estate securing the loan must be in a town with a population of not more than 10,000, except that under special circumstances the population may be as great as 20,000.

The Rural Development Act of 1972 created a new Farmers Home Loan Guaranty Program for residential, commercial and industrial property loans originated by private lenders. This program is designed to let private mortgage funds supplant direct lending by FmHA.

The programs administered by this agency are varied and include a subsidy program similar to FHA's 235 program. Most loans are made on an insured basis and then sold to the Federal Financing Bank, a division of the U.S. Treasury. At the end of 1979 the maximum interest rate on these loans was 12%. However, borrowers may receive interest rate credits which reduce the rate to as little as 1%, depending on their ability to pay. Losses incurred as a result of these interest rate subsidies are financed from general federal tax revenues.

In mid-year 1979 the FHLBB authorized FSLIC-insured institutions to invest in FmHA-guaranteed loans under certain conditions.

REFERENCES AND INDEX

Major Federal Laws Affecting the Savings and Loan Business

Date	Law	Key Provisions
1932	Federal Home Loan Bank Act	Established the Federal Home Loan Banks under the supervision of the Federal Home Loan Bank Board to provide a central credit facility to supplement the resources of home financing institutions.
1933	Home Owners' Loan Act	Provided emergency relief to homeowners through creation of the Home Owners' Loan Corporation to refinance or purchase existing home mortgages; authorized the creation under the FHLBB of a system of federally chartered and supervised savings and loan associations.
1934	National Housing Act	Created the Federal Housing Administration to insure home mortgage, low-income housing project and home improvement loans made by private lenders; established the Federal Savings and Loan Insurance Corporation to insure savings accounts at member savings associations.
1944	Servicemen's Readjustment Act (The G.I. Bill of Rights)	Established a program of loan guarantees under Veterans Administration auspices to encourage private lending on generous terms to veterans of the armed forces.
1949	Housing Act	Established national housing goals of "a decent home and suitable living environment for every American family"; provided grants to municipalities for public housing and slum clearance; set up a program of financial assistance for rural areas under the Farmers Home Administration.
1961	Housing Act	Authorized new programs for federal involvement in housing, including subsidized rental housing for low- and moderate-income families, and FHA insurance of liberal term loans for repair and modernization of existing homes in declining urban areas; expanded funding for FNMA special assistance functions.
1968	Housing and Urban Development Act	Gave federal associations the authority to invest in mobile home and home equipment loans; expanded their authority to issue a wide variety of savings plans, notes, bonds and debentures.

Date	Law	Key Provisions
1970	Emergency Home Finance Act	Created the Federal Home Loan Mortgage Corporation, under the FHLBB, to provide a secondary market for conventional loans as well as FHA and VA mortgages; extended from 20 to 30 years the period allowed for associations to accumulate FSLIC-required reserves.
1974	Housing and Community Development Act	Raised single-family and home improvement loan limits for federal associations; granted a line-of-credit authority for construction lending; created a 5%-of-assets category for loans an institution may not otherwise make.
1974	Depository Institutions Amendments	Increased FSLIC insurance of association savings accounts to $40,000 for private funds, $100,000 for public funds; delegated SEC enforcement authority for stock associations to the FHLBB.
1974	Real Estate Settlement Procedures Act	Provided comprehensive guidelines for loan closing costs and settlement practices.
1974	Equal Credit Opportunity Act	Prohibited discrimination in credit transactions on the basis of sex or marital status.
1975	Regulation Q and Home Mortgage Disclosure Act	Prohibited the elimination or reduction of the existing interest rate differential without prior congressional approval; required most financial institutions to disclose the number and dollar amount of mortgage loans made.
1976	Real Estate Settlement Procedures Act Amendments	Eased the requirements of the Real Estate Settlement Procedures Act.
1976	Equal Credit Opportunity Act Amendments	Broadened the scope of ECOA to forbid discrimination in credit transactions on seven additional bases.
1976	Tax Reform Act	Reduced certain allowable federal income tax deductions for associations, and increased the minimum tax rate; liberalized IRA and Keogh account provisions.
1977	Housing and Community Development Act	Raised ceilings on single-family loan amounts for association lending, federal agency purchases, FHA insurance and security for FHLB advances; liberalized the treatment of single-family and multifamily loans that exceed applicable ceilings; raised ceilings on conventional and FHA home improvement loans; required financial institution regulatory agencies to take into account an institution's record of serving the credit needs of its community when evaluating applications for new facilities, mergers and other matters.
1978	Revenue Act	Reduced certain corporate tax rates; permitted one-time exclusion of up to $100,000 capital gain on sale of home; allowed tax-deductible employer contributions to employee's IRA; raised IRA limits to lesser of $7,500 or 15% of earned income.
1978	Financial Institutions Regulatory and Interest Rate Control Act	Increased FSLIC insurance limits for IRA and Keogh accounts from $40,000 to $100,000; strengthened FHLBB regulatory powers over association officers, directors and related organizations; prohibited top management or director interlocks among depository institutions; created interagency Federal Bank Examination Council to

Date	Law	Key Provisions
		encourage uniformity in financial institution supervision; authorized FHLMC purchase of secured home improvement loan packages; amended Consumer Credit Protection Act establishing rights and responsibilities for electronic funds transfer.
1979	Federal Trade Commission Act —Savings and Loan Institutions Exemptions	Exempted FHLB member associations from the direct jurisdiction of the Federal Trade Commission.
1979	Housing and Community Development Act Amendments	Increased one-family home loan limits for federal associations; reduced the stockholding-to-advances ratio for FHLB System members from 1:12 to 1:20; raised FHA loan limits and expanded the FHA GPM program; raised FNMA and FHLMC loan ceilings; exempted FHA loans from state usury ceilings.
1979	Consumer Financial Services and State Usury Law Act	Extended financial institution remote service unit, automatic funds transfer and share draft powers until March 31, 1980; overrode state usury ceilings on conventional first mortgage loans on residential properties until March 31, 1980.
1980	Depository Institutions Deregulation and Monetary Control Act	For all depository institutions, extended savings interest rate control and the thrift institution differential for six years; shifted rate-setting authority from individual agencies to a Deregulation Committee, with targeted but not mandatory rate increases over the committee's six-year life; increased FSLIC and FDIC insurance for individually owned savings accounts from $40,000 to $100,000; granted permanent authority for remote service units, automatic funds transfers and share drafts; extended the federal override of state usury ceilings on certain mortgage and other loans; simplified truth-in-lending standards and reimbursement procedures; created standards and review procedures for simplification of new and existing regulations; authorized nationwide NOW accounts effective at year-end 1980 and established levels of cash reserves that must be held against NOW balances. For federal associations, authorized investment of up to 20% of assets in consumer loans, corporate debt securities and commercial paper; eased or removed lending restrictions, including geographical limitations, loan-to-value ratios and treatment of one-family loans exceeding specified dollar amounts; expanded authority to invest in service corporations; granted authority to invest in mutual funds, to issue credit cards and to engage in trust operations; granted authority to issue mutual capital certificates which could be counted toward federal insurance reserve requirements. For FSLIC-insured institutions, gave regulatory authorities the power to vary the reserve requirement between 3% and 6% (was 5%).

Recent Major Regulatory Changes Affecting the Savings and Loan Business

Effective Date	Item	Provisions
3/10/79	Change in control	FSLIC-insured institution stock transfers that result in a change in control of the association or holding company require 60 days' advance notice to the FHLBB, along with detailed statements about the transfer.
3/15/79	Money market certificates	FHLB member institutions may not compound interest on six-month MMCs and may not pay a 0.25% higher rate than commercial banks when the yield on six-month Treasury bills equals at least 9%.
4/13/79	Liquidity and investments	FHLB member institutions may count more of time and savings deposits in commercial banks as liquidity.
5/1/79	Conversion from mutual to stock ownership	FSLIC-insured institution member rights are increased in cases of conversion; stock purchases and concentration of stockholding by officers and directors are limited; unsubscribed shares must be sold in public offerings.
6/1/79	Forward commitment activities	FSLIC-insured institutions may make forward commitments to buy securities in amounts tied to their ratio of net worth to assets.
7/1/79	Savings account changes	FHLB member institutions may pay up to 5.5% (was 5.25%) on passbook accounts; may offer all certificate accounts except six-month MMCs with no minimum balance; must charge specified new penalties on early certificate withdrawals; may offer a four-year fixed-rate, variable ceiling certificate.
7/1/79	Variable rate mortgages	Federal associations may make, purchase and participate in variable rate mortgage loans.
7/19/79	Management interlocks	FSLIC-insured institution and holding company officials generally are prohibited from serving as officials of another institution.
8/31/79	Mobile home lending	Federal associations may invest up to 20% of assets (was 10%) in mobile home loans; may lend up to 90% of the borrower's total cost for a term of up to 20 years.
9/6/79	Loans on individual cooperative units	Federal associations may make loans on individual cooperative units in accordance with the regulations governing loans on single-family dwellings.

Effective Date	Item	Provisions
9/10/79	Expanded investment authority	Federal associations may invest in the obligations of their home state and local governments when the proceeds are used to support residential real estate; may invest up to specified limits in real estate or liens on property in areas receiving concentrated development assistance; may invest without dollar limit in property improvement loans for terms up to 20 years (was 15).
9/10/79	Investment in state housing corporation obligations	FSLIC-insured institutions with state charters may invest up to 30% of assets in state housing corporation obligations, except that investments outside the home state are limited to 10% of assets.
9/11/79	Automatic transfer account ceilings	FHLB member institutions may pay up to 5.25% (was 5%) on accounts subject to automatic transfer.
9/30/79	Mergers and consolidations	Federal stock associations and FSLIC-insured institutions may merge or consolidate subject to regulations requiring FHLBB and shareholder approval.
10/25/79	Savings account interest calculation	FHLB member institutions may without supervisory permission use a 365/360 time factor in computing savings account interest (366/360 in leap years).
12/5/79	Eurodollar certificates	FSLIC-insured institutions may issue Eurodollar certificates to foreign investors in denominations of $100,000 or more with a five-year minimum maturity.
12/21/79	Liquidity	FHLB member institutions may use monthly aggregate net savings withdrawals to reduce a liquidity deficiency caused by such withdrawals (was on the basis of quarterly distribution periods).
12/21/79	Accounting for loan fees	FSLIC-insured institutions may increase the amount of loan acquisition fees taken into current income (retroactive to 1/1/79).
12/28/79	Preemption of state usury ceilings	FSLIC-insured institutions may until March 31, 1980, issue commitments to lend or make loans on residential properties without regard to state usury laws governing interest rates, origination points, fees and charges (authorization made permanent effective 4/1/80).
1/1/80	Savings account changes	FHLB member institutions may offer a 30-month fixed-rate, variable ceiling certificate (replaces the four-year variable ceiling certificate); may pay up to 6% (was 5.75%) on 90-day notice accounts.
1/1/80	Statewide branching	Federal associations may establish branch offices and mobile facilities statewide (was within the home state and 100 miles of the home office).

Selected References

The following organizations and agencies provided data for the *1980 Fact Book*. The reader is referred directly to them for further information.

Bureau of Labor Statistics
Bureau of the Census
Co-operative Central Bank of Massachusetts
Council of Economic Advisers
CUNA International, Inc.
E. H. Boeckh and Associates
Farmers Home Administration
Federal Deposit Insurance Corporation
Federal Home Loan Bank Board
Federal Home Loan Banks
Federal Home Loan Mortgage Corporation
Federal Housing Administration
Federal National Mortgage Association
Federal Reserve Board
Federal Savings and Loan Insurance Corporation
Government National Mortgage Association
Institute of Life Insurance
Manufactured Housing Institute
Maryland Savings-Share Insurance Corporation
Moody's Investors Service
Mortgage Insurance Companies of America
National Association of Home Builders
National Association of Mutual Savings Banks
National Association of Realtors
National Conference of States on Building Codes and Standards
North Carolina Savings Guaranty Corporation
Ohio Deposit Guarantee Fund
Standard & Poor's Corporation
State savings and loan leagues
State savings and loan supervisory departments
Survey Research Center, University of Michigan
U.S. Department of Commerce
U.S. Department of Housing and Urban Development
U.S. Department of Labor
U.S. Treasury Department
Veterans Administration

Subject Index

Advances, FHLB; *see* Federal Home Loan Bank System
Advertising expense, association, 91
Apartments; *see* Multifamily housing
Assets, association
  and income, 91-92
  average, 51, 52, 53
  compared to other financial intermediaries, 46-48
  distribution by association size, 51-52, 53
  federally chartered, 50, 51, 52
  FHLB members, 96
  FSLIC members, 50, 51, 107-108
  geographic distribution, 49, 50, 52
  mutual, 51
  per capita, 47, 48, 49
  per employee, 93
  per office, 52-53
  ratios, 91-93
  return on, 90-91
  risk, 87
  state-chartered, 50, 51, 52
  stock, 51, 52
  total, 46, 47-48, 49, 50, 51, 52, 53, 80, 81, 82
  types, 80, 81-83. *See also individual entries, as* Mortgage loans, association; Cash and investments, association
Automated clearing house, 86
Automated teller machines, association, 85-86
Automatic transfer accounts, association; *see* Funds transfer services; NOW accounts

Balance sheet, association, 80-84
Black homeownership, 38
Boeckh index of residential construction cost, 22
Bonds
  corporate, 8, 15, 26, 35-36
  GNMA-guaranteed, 35, 80, 81-82, 115, 116, 117
  state and local, 15, 26, 122
  U.S. government, 15
  utility, 35-36
Borrowed money, association, 73-74, 75, 80, 82, 84, 88, 90, 91, 102-103
Branch offices, association, 53-54, 119, 122
Building and equipment, association, 80

Cash and investments, association, 80, 81, 82-83
Census of Housing, 37-38
Certificate savings accounts, association, 14, 55-59, 60, 61, 63-65, 121, 122
Charters, association, 48, 49-50, 51, 95, 96
Checking accounts, association, 86. *See also* Funds transfer services; NOW accounts
Commercial banks
  assets, 46, 47
  insurance of accounts, 105, 120
  mortgage loans, 28, 29, 30, 31, 32, 33
  reserves, 84
  savings, 11, 12, 13, 14, 15, 55, 59
  taxation, 87
Commercial property loans, association, 31, 67, 68, 69
Community Reinvestment Act, 75
Condominiums, 39, 112, 113
Consolidated obligations, FHLB; *see* Federal Home Loan Bank System
Construction; *see* Housing
Construction loans, association, 67-68, 70, 72, 119
Consumer credit outstanding, 26
Consumer Credit Protection Act, 75, 120
Consumer Financial Services and State Usury Law Act, 120

Consumer Leasing Act, 75
Consumer loans, association, 68, 73, 80, 82, 118, 119, 120, 121
Consumer prices, 7, 8
  and residential construction costs, 19-20, 22
Consumer spending, 7, 9, 10
Co-operative banks, 50
Co-operative Central Bank of Massachusetts, 50
Credit cards, association, 120
Credit outstanding, major types, 26, 27
Credit unions, 11, 12, 14, 46, 47-48

Debentures, association, 88-89, 118
Depository Institutions Acts, 59, 60, 86, 87, 89, 107, 119, 120
Depository Institutions Deregulation Committee, 59
Developer-built housing, 23-24, 25, 40, 41, 44-45
Disintermediation, 11-12, 48, 59, 65

Earnings, association, 88, 89, 90-93
Education loans, association, 73, 80, 82
Equal Credit Opportunity Act, 72, 75, 119
Eurodollar certificates, association, 122
Expense, association
  interest on borrowed funds, 88, 90, 91
  interest on savings accounts, 64, 65, 88, 89, 90
  operating, 88, 89, 90-91

Fair Credit Acts, 75
Family formations, 41-44
Farmers Home Administration, 81-82, 117, 118
Farm loans, association, 31, 67, 69
Federal agencies in housing and mortgage markets, 17-18, 25, 29, 30-31, 32-35, 110-117, 118, 119, 120
Federal Bank Examination Council, 119-120
Federal debt, 26
Federal Deposit Insurance Corporation, 59, 105, 120
Federal Home Loan Bank Act, 82, 94, 96, 99, 118
Federal Home Loan Bank Board
  income and expenses, 95, 104
  Office of Examinations and Supervision, 95-96
  Office of Finance, 99
  purpose and function, 95-96
  regulations; *see individual entries, as* Interest rate ceilings; Variable rate mortgages
  regulatory and supervisory powers, 49-50 59, 85, 95-96, 118, 119, 120
Federal Home Loan Bank System
  advances, 34, 97, 99-100, 101-102, 104, 115, 119, 120
    to associations, 75, 80, 81, 82, 84, 102, 103
  assets 98, 104
  capital stock, 97, 98, 99, 104, 106
    dividends, 102-103, 104
    owned by associations, 80, 81, 83
  Community Investment Fund, 102
  consolidated obligations, 94, 97, 98, 99-101, 104
  districts, 97-99, 101, 103
  lending policies, 101-102
  liabilities, 104
  member deposits, 97, 98, 99, 104
  membership and member assets, 96, 97
  number of borrowers, 100, 102
  operating statement, 104
  purpose and function, 30-31, 94-104, 110, 118
  statement of condition, 104
Federal Home Loan Mortgage Corporation, 34, 95, 103, 110, 113-115, 116, 117, 119, 120
  participation certificates, 35, 82, 114, 115
  statement of condition, 114
Federal Housing Administration, 110-113, 118
  insured loans, 32, 33, 34, 35, 76, 110-113, 118, 119, 120
Federal National Mortgage Association, 30-31, 34, 110, 115-116, 117, 118, 120
Federal Reserve Board, 8, 9, 10, 55, 58, 59
Federal Savings and Loan Advisory Council, 96
Federal Savings and Loan Insurance Corporation, 95, 105-109, 118, 119, 120
  operating statement, 109
  reserve regulations for associations, 87, 105, 119, 120
  savings associations insured, 48, 50, 51, 96, 107-108
  statement of condition, 108
Finance companies, assets, 46
Financial Institutions Regulatory and Interest Rate Control Act, 119-120
Flood Disaster Protection Act, 75
Foreclosures, 44, 73, 76, 111
Funds transfer services, association, 60, 85-86, 120, 122

Government in the Sunshine Act, 96
Government National Mortgage Association, 30-31, 34, 35, 110, 115, 116-117
  futures market, 117
  mortgage-backed securities, 35, 81-82, 115, 116, 117

Graduated payment mortgages, 70-71, 111-112
Gross national product, 7
  and residential construction, 18, 20, 21
Gross savings receipts, association, 60-61, 62, 64

Home buyer characteristics, 39
Home equipment loans, association, 118
Home improvement loans, association, 68, 73, 80, 82, 118, 119, 120, 122
Home Mortgage Disclosure Act, 72, 75, 119
Homeownership, 7, 21, 37-39
Home Owners' Loan Act, 49-50, 118
Home Owners' Loan Corporation, 118
Home purchase loans, association, 67, 70, 71, 72
Household formations, 41-44
Household savings, 9, 10, 11-12, 13
Housing
  absorption rates, 45
  completions, 22-23
  condominium, 39, 112, 113
  construction, 16-25, 41
    costs, 19-20, 22
    expenditures, 18, 21
  cooperative, 39, 121
  developer-built, 23-24, 25, 40, 41, 44-45
  financing; *see* Mortgage loans
  market, 40-45
  mobile homes, 24-25, 113
  multifamily; *see* Multifamily housing
  one- to four-family; *see* One- to four-family housing
  owner-built, 23, 25
  owner-occupied, 37-38, 45, 112-113
  public, 16, 17-18, 21, 118
  rental, 21-22, 37, 38, 45, 110, 112, 113
  sales, 24, 25, 40-41
  sales prices, 20-21, 23, 24, 40, 41, 42, 75
  single-family; *see* One- to four-family housing
  starts, 16-18, 19, 20, 21-22, 24, 25, 42-43, 112, 113
  subsidized, 18, 20, 110, 112-113, 117, 118
  turn-key, 18
  unsold, 24, 44-45
  vacancy-occupancy rates, 45
Housing Acts, 35, 70, 75, 89, 103, 110, 111, 112-113, 115, 118-119, 120
Housing agencies, state, 75, 110, 113, 122

Income, association, 88, 89, 90-92
Income, personal, 7, 8, 9-10
  and savings, 7-15
Individual retirement accounts, 14, 60, 105, 119
Inflation, 7-8, 17
Insurance of accounts, association, 48, 50, 51, 95, 96, 105-109, 119, 120
Interest Rate Adjustment Act, 59
Interest rate ceilings
  loans, 110, 112, 113, 117, 120, 122
  savings, 14, 55, 57-59, 60, 119, 120, 121, 122
Interest rate risk, 94-95, 116-117
Interest rates
  corporate bonds, 8, 15, 35-36
  FHLB advances, 100, 101, 102
  FHLB obligations, 100, 101
  long-term, 8, 35-36
  mortgage loans, 35-36, 70-72, 75, 90, 91-92, 110, 112, 113, 117
  savings, 14, 15, 55, 57-59, 60, 65, 119, 120, 121, 122
  short-term, 8, 12, 14, 55, 59
  state and local bonds, 15
  U.S. Treasury obligations, 8, 15, 59
  utility issues, 35-36
Inventory of unsold homes, 24, 44-45
Investment companies, assets, 46

Keogh savings accounts, 14, 60, 105, 119

Land development loans, association, 67
Liabilities, association, 80, 81, 82, 83-84. *See also individual entries, as* Savings accounts; Debentures
Life insurance companies
  assets, 46, 47
  FHLB membership, 96
  mortgage loans, 28, 29, 30, 31, 32, 33
  reserves, 10, 11
Liquidity, association, 73-74, 75, 80, 82-83, 92, 94, 121, 122
Loan arrearage ratio, association, 73
Loans in process, association, 80, 83-84, 91

Market rate certificates, association, 14, 56, 58-59, 60, 61, 65, 121, 122
Maryland Savings-Share Insurance Corporation, 50
Mergers, association, 50, 53, 54, 95, 96, 108, 119, 122
Mobile home loans, association, 68, 73, 80, 82, 118, 121
Mobile homes, 24-25, 113
Money market certificates, 14, 55-58, 60, 65, 121
Money market mutual funds, 12
Mortgage-backed securities, 35, 77, 79 81-82, 115, 117
Mortgage insurance, private, 31-33, 34, 35, 73
Mortgage loans, all lenders, 26-36
Mortgage loans, association
  average balance, 47, 66, 67

  closed, 66, 67, 72, 74
  closed and purchased, 66, 70, 72, 74, 78
  commercial property, 31, 67, 68, 69
  construction, 67-68, 70, 72, 119
  conventional, 75, 76, 79
  cooperative unit, 121
  delinquencies and foreclosures, 73, 76, 87
  disclosure requirements, 72-73, 75
  farm, 31, 67, 69
  fees and discounts, 70, 75, 89, 90, 122
  FHA-insured, 76, 79
  graduated payment, 70-71
  home purchase, 67, 70, 71, 72
  interest income, 89, 90
  interest rates, 70-72, 75, 90, 91-92
  land development, 67
  loanable funds, sources, 47, 73-77, 79
  loans in process, 80, 83-84, 91
  multifamily, 28, 29, 30, 31, 33, 66-67, 68, 69, 72
  number and size, 47, 66, 67
  number of homes financed, 67, 71
  one- to four-family, 28-30, 31, 32, 66-67, 68, 69, 71, 72
  other improved real estate, 67, 68, 72
  outstanding, 28-30, 31, 32, 33, 66-67, 69, 78, 80, 81
  percentage of assets, 66, 80, 81, 82
  portfolio inflows, 73-74, 75-77, 78, 79
  portfolio yields, 90, 91-92
  prepayments, 75
  purchased, 68, 70, 72, 74
  renegotiable rate, 71-72
  repayments, 75-77, 78, 79
  reverse annuity, 71
  sold, 72, 75, 77, 79
  single-family, 66, 68, 69, 70, 72, 75
  terms, 70-72, 75
  turnover ratio, 75-77, 78, 79
  VA-guaranteed, 76, 79
  variable rate, 71, 72, 121
Mortgage pools, 35, 77, 79, 81-82, 115, 117
Multifamily housing
  absorption rates, 45
  financing, 26, 27, 28, 29, 30, 31, 33, 35, 66-67, 68, 69, 72, 110, 112
  ownership, 39
  starts, 19, 21-22, 23, 24
  vacancy rates, 45
Mutual savings banks
  assets, 46, 47
  FHLB membership, 96
  insurance of accounts, 105
  mortgage lending, 28, 29, 30, 31, 32, 33
  savings, 11, 12, 13, 14, 15, 55

National Association of Realtors, 40, 41
National Credit Union Administration, 59
National Standards for Mobile Homes, 25
Net savings receipts, association, 62, 63, 64, 73-75, 77
Net worth, association
  additions to, 89, 90
  and lending, 73-74, 75, 77
  defined, 84
  percentage of assets, 82, 92, 93
  requirements, 86, 87
  return on, 86, 87
  total, 52, 80, 84
Nonmortgage loans, association, 68, 73, 80, 82, 118, 119, 120, 121
North Carolina Savings Guaranty Corporation, 50
Notice (90-day) accounts, association, 56, 60, 122
NOW accounts, association, 60, 86, 120

Office occupancy expense, association, 91
Ohio Deposit Guarantee Fund, 50
One- to four-family housing
  financing, 26, 27, 28-30, 31, 32, 33, 34, 35, 66-67, 68, 69, 71, 72, 110, 111, 112, 113, 119
  sales, 20-21, 23, 24, 25, 40-41, 42
  starts, 19, 21, 25
  unsold, 24, 44-45
Operating expense, association, 88, 89, 90-91
Operating income, association, 88, 89, 90-92
Over-the-counter savings, 9, 10, 12, 14

Participations, purchases and sales, association, 68, 70, 72, 74, 75, 77, 79
Passbook savings accounts, association, 56-57, 58, 59-60, 61, 64, 121
Pass-through securities, GNMA, 35, 81-82, 115, 116, 117
Pension funds, 10, 11, 46, 47
Personal savings, 9-11
Personnel, association, 90, 91, 93
Property improvement loans, association, 68, 73, 80, 82, 118, 119, 120, 122
Public housing, 16, 17-18, 21, 118

Rate Control Act, 99
Real estate market, 40-45
Real estate owned, association, 80, 81, 83, 87
Real Estate Settlement Procedures Act, 72, 75, 119
Regulation Q, 14, 57-59, 60, 119, 120
Remote service units, association, 85-86, 95, 120
Renegotiable rate mortgages, 71-72
Reserves, association; *see* Net worth, association
Residential construction; *see* Housing

- Residential financing; *see* Mortgage loans
- Retained earnings, association; *see* Net worth, association
- Revenue Acts, 86, 119
- Reverse annuity mortgages, 71
- Rural Development Act, 117

- Savings, 7-15
  - flows, 10-14, 28, 30-31, 55-65
  - household, 9, 10, 11-12, 13
  - interest rates, 14, 15, 55, 57-59, 60, 65, 119, 120, 121, 122
  - over-the-counter, 9, 10, 12, 14
  - personal, 9-11
- Savings associations
  - federal, 49-50
    - FHLB membership, 54, 96
    - FSLIC membership, 48, 50, 85, 96, 107-108
    - number and assets, 48, 50, 51, 52
    - stock charter, 51
  - function and structure, 46-54, 66, 81, 85
  - management interlocks, 119, 121
  - mergers, 50, 53, 54, 95, 96, 108, 119, 122
  - mutual, 50-51
  - number and size, 48, 49, 50, 51-53, 54
  - number of operating sites, 54
  - operations, 85-93
  - ownership, 50-51
  - population per office, 52-53
  - state, 49-50
    - FHLB membership, 54, 96
    - FSLIC membership, 48, 50, 51, 96, 107-108
    - number and assets, 48, 50, 51, 52
  - stock, 50-51, 52, 119, 121
  - supervision and regulation, 46-47, 49-50, 85, 86-87, 95-96, 107, 118, 119, 121-122
  - tax definition, 87
- Savings deposits, association
  - average balance, 47, 63
  - certificate, 14, 55-59, 60, 61, 63-65, 121, 122
  - compared with other media, 10-15
  - flows, 28, 55-65
  - funds transfer services, 60, 85-86, 120, 122
  - individual retirement, 14, 60, 105, 119
  - insurance, 48, 50, 51, 95, 96, 105-109, 119, 120
  - interest paid, 64, 65, 88, 89, 90, 91
  - interest rates, 14, 15, 55, 57-59, 60, 65, 119, 120, 121, 122
  - Keogh, 14, 60, 105, 119
  - loans on, 68, 73, 80, 82
  - market rate certificate, 14, 56, 58-59, 60, 65, 121, 122
  - maturity structure, 60, 63-65
  - money market certificate, 14, 55-58, 60, 65, 121
  - notice (90-day), 56, 60, 122
  - NOW, 60, 86, 120
  - number and size, 47, 63
  - passbook, 56-57, 58, 59-60, 61, 64, 121
  - percentage of liabilities, 80, 82, 83
  - retirement, 14, 60, 105, 119
  - total, 12, 14, 56-57, 58, 60, 63, 64, 65, 80, 83, 84
  - turnover ratio, 61, 62, 63
  - types, 56, 59-60, 61
  - withdrawals, 61, 62, 63, 121, 122
- Scheduled items, association, 87
- Secondary mortgage market, 30-31, 35, 68, 70, 75-77, 79, 103, 110, 113-117. *See also individual entries, as* Federal Home Loan Mortgage Corporation
- Service corporations, association, 80, 82, 89-90, 120
- Servicemen's Readjustment Act, 113, 118
- Single-family housing; *see* One- to four-family housing
- Speculatively built housing, 23-24, 25, 40, 41, 44-45
- Spending, personal, 7, 9, 10
- State housing corporation obligations, 110, 122
- Statement of condition, association, 80-84
- Statement of operations, association, 88
- Subordinated debentures, association, 88-89, 118
- Subsidies for housing
  - federal, 18, 20, 110, 112-113, 117, 118
  - state, 110, 113
- Surplus, association; *see* Net worth, association

- Tandem programs, 116-117
- Tax Acts, 86-87, 119
- Taxes
  - association, 84, 86-87, 88, 91
  - corporate, 119
  - personal, 9, 10, 38, 60, 119
- Trust services, association, 120
- Truth-in-lending Act, 75, 120

- Undivided profits, association; *see* Net worth, association
- U.S. Treasury obligations, 8, 15, 59
- Usury ceilings, 113, 120, 122

- Vacancy-occupancy rates, 45
- Variable rate mortgages, 71, 72, 121
- Veterans Administration, 32, 33, 34, 35, 76, 113, 114, 115, 118

- Withdrawals, savings account, association, 61, 62, 63, 121